Financial Statements and Report of Independent Certified Public Accountants

Nevada Housing Division

June 30, 2018

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 Nevada Housing Division, a proprietary fund of the State of Nevada (the "Division") as of and for the year ended June 30, 2018, 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 Nevada Housing Division as of June 30, 2018, 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.

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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, the schedule of division contributions – pensions, the schedule of proportionate share of the net OPEB liability and the schedule of division contributions – OPEB 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.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements that collectively comprise the Division's basic financial statements. The accompanying supplemental information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 31, 2018, 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, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nevada Housing Division

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2018

Financial Statement Highlights

- The change in Net Position [bottom line] for the Housing Division was $9,378,719.
- Results of operations [revenue less operating expenses] decreased $135,941 or 1.6% in comparison to last year's $4,762,731 increase primarily due to the increase in operating expenses. There was an increase in General Funds Net Position of $9,291,813; an increase in Net Position for the Single-Family bond programs of $172,127 and a decrease in Net Position for the Multi-Unit bond programs of $85,221. Both single-family and multi-unit bond programs continue to pay off at an accelerating rate. While total operating revenues increased $2,090,304, total expenses increased $2,226,245.
- The trend in declining single-family whole loan first mortgage numbers and dollar balances continued through the June 30, 2018 period. However, securitized loan pools continued to increase. The total number of single-family whole loan first mortgages outstanding changed from 164 at June 30, 2017 to 157 at June 30, 2018. This decrease is the result of the payoff of single-family whole loans.
- Down payment assistance loans have a stable delinquency rate at June 30, 2018 of 23.38%, reflecting Nevada's improving but still recovering housing market. Loan delinquencies on whole first single-family mortgages outstanding went from 6.10% of loans outstanding at June 30, 2017 to 5.10% at June 30, 2018 due to the decrease in the number of mortgages.
- Total investment earnings decreased 12.47% from $5,701,252 for the year ended June 30, 2017 to $4,990,028 for the year ended June 30, 2018.
- Total salaries and payroll expenses paid decreased 15.33% from $1,755,407 for the year ended June 30, 2017 to $1,486,305 for the year ended June 30, 2018.
- The net cash position of the Housing Division increased from $1,020,171 at June 30, 2017 to $10,589,520 at June 30, 2018. This increase is a result of funds held at year end in a defeasance account for settlement of a multi-unit bond program.
- 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. Three other programs of the Housing Division, the Manufactured Housing Program, 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 $525,883,008 versus the Statutory Limit of $5 billion.

Financial Analysis

Total Assets: The total assets at year end were $796,536,692, up $23,188,923 or 3.00%. This increase is primarily due to long-term notes receivables.

2018	2017
$ 796,536,692	$ 773,347,771

The book value of single-family first mortgage loans outstanding at year end was $6,084,952.

	2018	2017
Value	$ 6,084,952	$ 7,525,499
# of loans	157	164
% delinquent	5.10%	6.10%

Total Liabilities: The total liabilities at year end were $581,609,527, up $13,919,308 or 2.45%.

2018	2017
$581,609,527	$ 567,690,219

The Total Asset: Total Liability ratio has been:

2018	2017
1.370X	1.362X

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

2018	2017
10.5%	10.3%

Net Position: The net position of the Housing Division, as restated for the implementation of GASB 75, increased to $215,109,900, up $8,625,151 or 4.56%.

2018	2017
$ 215,109,900	$ 205,731,181

Financial Analysis - Continued

In the past two 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	2018	2017
General Fund	$ 204,554,223	$ 195,262,410
Single-Family	10,496,912	10,324,785
Multi-Unit	58,765	143,986

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

	2018		2017	
	Amount	%	Amount	%
Single-Family	$ 336,949	17.7	$ 444,014	18.6
Multi-Unit	1,561,941	82.3	1,941,867	81.4
Totals	$ 1,898,890		$ 2,385,881	

Administrative Budget

The Housing Division's administrative expense budget was approved for fiscal years FY2017 and FY2018 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, 2018, the Housing Division had the following significant changes in comparing the original budget to the final budget:

- Budgetary reserves at year-end were $249,583.
- Federal grant revenues had an increase of $1,344,075 in other income for the HOME Program. Federal grant expenses increased from the original budget by $1,879,043 primarily from expenses related to the HOME Program.

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, 2018.

For questions regarding the accompanying Combined Financial Statements, Notes and Supplementary Information, please email nhdinfo@housing.nv.gov or contact our office at 775-687-2249.

STEPHEN AICHROTH /S/	MICHAEL HOLLIDAY /S/
Stephen Aichroth, Administrator	Michael Holliday, Chief Financial Officer

COMBINED FINANCIAL STATEMENTS

Nevada Housing Division

COMBINED STATEMENT OF NET POSITION

June 30, 2018

ASSETS	General Funds	Program Funds Single-Family	Program Funds Multi-Unit	Combined Total
Current assets				
Cash	$ 1,843,554	$ -	$ 8,745,966	$ 10,589,520
Investments				
Restricted	85,959,325	1,840,769	-	87,800,094
Unrestricted	-	14,888,681	35,776,866	50,665,547
Fair value adjustment on investments	(94,847)	-	-	(94,847)
Total investments	85,864,478	16,729,450	35,776,866	138,370,794
Loans receivable, net	282,189	-	33,048,355	33,330,544
Interest and other receivables, net	11,726,868	245,534	1,326,750	13,299,152
Total current assets	99,717,089	16,974,984	78,897,937	195,590,010
Noncurrent assets				
Long-term investments				
Restricted	91,631,757	-	-	91,631,757
Unrestricted	-	75,943,076	93,380,168	169,323,244
Fair value adjustment on investments	(1,293,477)	-	-	(1,293,477)
Total long-term investments	90,338,280	75,943,076	93,380,168	259,661,524
Loans receivable, net	7,379,761	-	311,567,786	318,947,547
Office furniture and equipment, net of accumulated depreciation of $184,297	178,253	-	-	178,253
Long-term notes receivable	18,244,157	-	-	18,244,157
Long-term HIP teacher grant rec, net of amortization	3,466,417	-	-	3,466,417
Long-term receivable from related parties	448,784	-	-	448,784
Total noncurrent assets	120,055,652	75,943,076	404,947,954	600,946,682
Total assets	$ 219,772,741	$ 92,918,060	$ 483,845,891	$ 796,536,692
Deferred outflows of resources				
Pension and post-employment benefit contributions	$ 463,691	$ -	$ -	$ 463,691
Total deferred outflows	$ 463,691	$ -	$ -	$ 463,691
LIABILITIES AND NET POSITION				
Current liabilities				
Bonds payable	$ -	$ 2,000,000	$ 27,384,973	$ 29,384,973
Interest payable	-	664,953	1,798,225	2,463,178
Interfund	121,035	76,625	(197,660)	-
Accounts payable and other liabilities	10,998,190	-	37,983,123	48,981,313
Total current liabilities	11,119,225	2,741,578	66,968,661	80,829,464
Noncurrent liabilities				
Payable to related party	448,784	-	-	448,784
Net pension and post-employment benefits liability	3,833,244	-	-	3,833,244
Bonds payable, net of current portion	-	79,679,570	416,818,465	496,498,035
Total noncurrent liabilities	4,282,028	79,679,570	416,818,465	500,780,063
Total current and noncurrent liabilities	15,401,253	82,421,148	483,787,126	581,609,527
Deferred inflows of resources				
Pension and post-employment benefit	280,956	-	-	280,956
Total deferred outflows	280,956	-	-	280,956
Net position				
Invested in capital assets	178,253	-	-	178,253
Restricted	178,103,000	10,496,912	58,765	188,658,677
Unrestricted	26,272,970	-	-	26,272,970
Total net position	$ 204,554,223	$ 10,496,912	$ 58,765	$ 215,109,900

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, 2018

	General Funds	Program Funds: Single-Family	Program Funds: Multi-Unit	Combined Total
Operating revenues				
Interest and other investment income	$ 2,380,164	$ 3,410,558	$ 22,885	$ 5,813,607
Realized and unrealized losses on investments	(823,579)	-	-	(823,579)
Total investment income	1,556,585	3,410,558	22,885	4,990,028
Interest income on mortgage loans	570,567	-	12,717,122	13,287,689
Other income	7,509,738	-	1,454,394	8,964,132
Total operating revenues	9,636,890	3,410,558	14,194,401	27,241,849
Operating expenses				
Salaries and other payroll costs	1,486,305	-	-	1,486,305
Administrative expenses	1,169,484	-	107,546	1,277,030
Depreciation	36,255	-	-	36,255
Servicers' fees	19,539	-	-	19,539
Interest on bonds payable	-	2,901,482	12,717,681	15,619,163
Amortization of issue costs	650,750	-	-	650,750
Interfund operating charge	(1,791,344)	336,949	1,454,395	-
Total operating expenses	1,570,989	3,238,431	14,279,622	19,089,042
Non-operating revenues				
Federal program revenue	5,499,786	-	-	5,499,786
Federal program expenses	(4,273,874)	-	-	(4,273,874)
Total non-operating income	1,225,912	-	-	1,225,912
CHANGE IN POSITION	9,291,813	172,127	(85,221)	9,378,719
Net position at beginning of year, as previously reported	196,015,978	10,324,785	143,986	206,484,749
Change in accounting principle, GASB 75 adjustments	(753,568)	-	-	(753,568)
Net position at beginning of year, as restated	195,262,410	10,324,785	143,986	205,731,181
Net position at end of year	$ 204,554,223	$ 10,496,912	$ 58,765	$ 215,109,900

The accompanying notes are an integral part of this statement.

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS

Year ended June 30, 2018

	General Funds	Program Funds Single-Family	Program Funds Multi-Unit	Combined Total
Cash flows from operating activities:				
Cash received from mortgage loans	$ 2,699,501	$ -	$ 124,616,793	$ 127,316,294
Cash payments to purchase mortgage loans	(1,649,916)	-	(47,638,520)	(49,288,436)
Cash receipts (payments) for goods and services	(8,408,348)	(336,950)	68,982	(8,676,316)
Interfund	40,846	(22,442)	(18,404)	-
Net cash provided by (used in) operating activities	(7,317,917)	(359,392)	77,028,851	69,351,542
Cash flows from noncapital financing activities:				
Proceeds from sale of bonds	-	-	136,594,623	136,594,623
Principal payments and purchase of bonds	-	(21,738,341)	(103,388,953)	(125,127,294)
Interest payments on bonds	-	(3,080,315)	(12,265,484)	(15,345,799)
Federal grants received	5,499,786	-	-	5,499,786
Cash paid to other governments and organizations	(4,273,874)	-	-	(4,273,874)
Net cash provided by (used in) noncapital financing activities	1,225,912	(24,818,656)	20,940,186	(2,652,558)
Cash flows from investing activities:				
Purchase of short-term investments	(42,715,506)	(73,932,587)	(154,977,881)	(271,625,974)
Sale of short-term investments	39,038,552	71,855,022	159,499,925	270,393,499
Purchase of long-term investments	(37,593,577)	(19,102,197)	(100,887,724)	(157,583,498)
Sale of long-term investments	45,955,403	42,886,147	7,507,555	96,349,105
Income received on investments	2,230,516	3,471,663	(364,946)	5,337,233
Net cash provided by (used in) investing activities	6,915,388	25,178,048	(89,223,071)	(57,129,635)
NET INCREASE IN CASH	823,383	-	8,745,966	9,569,349
Cash at beginning of year	1,020,171	-	-	1,020,171
Cash at end of year	$ 1,843,554	$ -	$ 8,745,966	$ 10,589,520

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS - CONTINUED

Year ended June 30, 2018

	General Funds	Program Funds Single-Family	Program Funds Multi-Unit	Combined Totals 2018
Reconciliation of change in net position to net cash provided by (used in) operating activities:				
Change in net position	$ 9,291,813	$ 172,127	$ (85,221)	$ 9,378,719
Change in deferred outflows of resources	27,406	-	-	27,406
Change in deferred inflows of resources	(103,533)	-	-	(103,533)
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:				
Depreciation	36,255	-	-	36,255
Income on investments	(2,380,164)	(3,410,558)	(22,885)	(5,813,607)
Realized and unrealized losses on investments	823,579	-	-	823,579
Interest on bonds payable	-	2,901,482	12,717,681	15,619,163
Change in assets and liabilities:				
Loans receivable	2,057,740	-	64,755,554	66,813,294
Other receivables	(18,985,731)	(1)	(589,635)	(19,575,367)
Interfund	40,846	(22,442)	(18,404)	-
Accounts payable and other liabilities	1,589,530	-	271,761	1,861,291
Net pension liability	284,342	-	-	284,342
Net cash provided by (used in) operating activities	$ (7,317,917)	$ (359,392)	$ 77,028,851	$ 69,351,542

The accompanying notes are an integral part of this statement.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2018

NOTE A - AUTHORIZING LEGISLATION

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

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

NOTE B - THE REPORTING ENTITY AND NATURE OF FUNDS

1. All Funds

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

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

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

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

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

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

2. General Funds

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

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

2. General Funds - Continued

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

As of June 30, 2018, the Division had designated certain general fund assets totaling $178,103,000 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, 2018, 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 38 multi-unit programs existing as of June 30, 2018, under 38 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.

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 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, 2018, the Division recorded an allowance of $754,285 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 restricted 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. Cash and Investments

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

11. Accrued Interest Receivable

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

12. Bond Redemptions

During the year ended June 30, 2018, the Division redeemed a total of $125,127,294 of debt, pursuant to provisions of the related agreements, which permit surplus revenues, resulting primarily from mortgage loan payments, to be used to retire the obligations. The accelerated amortization of costs of issuance resulting from these surplus revenue redemptions is included in amortization of issue costs.

13. Arbitrage Rebate

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

14. Using Estimates

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

15. Accounting for Compensated Absences

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

16. Accounting and Financial Reporting for Certain Grants

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

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

17. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Nevada (PERS) and additions to/deductions from PERS' fiduciary net 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.

18. Other Post-Employment Benefits

For purposes of measuring the net post-employment benefits liability, deferred outflows of resources, deferred inflows of resources and post-employment benefit expense, information about the fiduciary net position of the Public Employees' Benefit Program of Nevada (PEBP) and additions to/deductions from PEBP's fiduciary net position have been determined on the same basis as they are reported by PEBP. For this purpose, benefits payments 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 and other post-employment benefit contributions that qualify for reporting in this category, which are discussed in depth in Notes I and J.

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 and other post-employment benefit contributions that qualify for reporting in this category, which are discussed in Notes I and J.

20. New Accounting Pronouncements

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. The Division adopted this guidance for the period ended June 30, 2018, and it did not have a material impact on the Division's financial statements.

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

20. New Accounting Pronouncements - Continued

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 post-employment benefits other than pensions (other post-employment 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. The Division adopted this guidance for the period ended June 30, 2018, which resulted in an adjustment to beginning net position on the Statement of Revenues, Expenses, and Changes in Net Position of ($753,568) to record the impact of the prior year other post-employment benefit related elements of net position.

NOTE D - INVESTMENTS

Investments consist of the following at June 30, 2018:

	General Funds	Single-Family	Multi-Unit	Total
Short-term investments	$ 84,853,928	$ 14,433,715	$ 35,776,866	$ 135,064,509
U.S. Treasury notes	26,673,496	-	-	26,673,496
U.S. Agencies	25,893,638	-	-	25,893,638
Certificates of deposit	4,966,621	-	-	4,966,621
Corporate notes	16,449,186	-	-	16,449,186
Securitized	2,644,395	-	-	2,644,395
Investment agreements	-	11,621	93,380,168	93,391,789
Federal National Mortgage Association	3,723,952	6,442,417	-	10,166,369
Government National Mortgage Association	10,997,542	71,784,773	-	82,782,315
	$ 176,202,758	$ 92,672,526	$ 129,157,034	$ 398,032,318

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.

NOTE D - INVESTMENTS - Continued

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.

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.

NOTE D - INVESTMENTS - Continued

Credit Risk - Continued

The credit risk profile for investments at June 30, 2018 is a follows:

Investment Type	General Funds	Single-Family	Multi-Unit	Total
Short-term investments				
Aaam	$ 64,548,655	$ 14,433,715	$ 35,776,866	$ 114,759,236
Aaa	13,599,236	-	-	13,599,236
A1	498,210	-	-	498,210
A2	1,095,635	-	-	1,095,635
A3	499,210	-	-	499,210
P1	4,584,885	-	-	4,584,885
NR	28,097	-	-	28,097
Total short-term investments	$ 84,853,928	$ 14,433,715	$ 35,776,866	$ 135,064,509
U.S. Treasury notes				
Aaa	$ 26,673,496	$ -	$ -	$ 26,673,496
U.S. Agencies				
Aaa	$ 11,191,388	$ -	$ -	$ 11,191,388
NR	14,702,250	-	-	14,702,250
Total U.S. Agencies	$ 25,893,638	$ -	$ -	$ 25,893,638
Certificates of deposit				
Aa2	$ 1,788,129	$ -	$ -	$ 1,788,129
Aa3	1,473,647	-	-	1,473,647
A+	799,411	-	-	799,411
A1	905,434	-	-	905,434
Total certificates of deposit	$ 4,966,621	$ -	$ -	$ 4,966,621
Corporate notes				
Aaa	$ 473,867	$ -	$ -	$ 473,867
Aa1	691,156	-	-	691,156
Aa2	881,762	-	-	881,762
Aa3	1,343,518	-	-	1,343,518
A1	2,215,192	-	-	2,215,192
A2	2,931,882	-	-	2,931,882
A3	4,958,640	-	-	4,958,640
Baa1	890,962	-	-	890,962
NR	2,062,207	-	-	2,062,207
Total corporate notes	$ 16,449,186	$ -	$ -	$ 16,449,186
Securitized				
Aaa	$ 2,644,395	$ -	$ -	$ 2,644,395
Investment agreements				
Aa3	$ -	$ -	$ 93,380,168	$ 93,380,168
Baa3	-	11,621	-	11,621
Total investment agreements	$ -	$ 11,621	$ 93,380,168	$ 93,391,789
Federal National Mortgage Association				
Aaa	$ 3,723,952	$ 6,442,417	$ -	$ 10,166,369
Government National Mortgage Association				
Aaa	$ 10,997,542	$ 71,784,773	$ -	$ 82,782,315

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, 2018, the Division's investments in the Fannie Mae and Ginnie Mae are 2.55% and 20.80%, 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.

The following table represents the maturities of the Division's investments as of June 30, 2018:

		Maturities in Years				
	Total	Less than 1	1-5	6-10	More than 10	No Maturity
Short-term investments	$ 135,064,509	$ 20,305,273	$ -	$ -	$ -	$ 114,759,236
U.S. agencies	145,515,818	-	41,642,518	10,183,063	93,690,237	-
Corporate notes and certificates of deposit	21,415,807	-	21,415,807	-	-	-
Securitized	2,644,395	-	2,644,395	-	-	-
Investment agreements	93,391,789	-	93,380,168	-	11,621	-
	$ 398,032,318	$ 20,305,273	$159,082,888	$ 10,183,063	$ 93,701,858	$ 114,759,236

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, 2018:

		Fair Value Measurements Using		
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Treasury securities	$ 34,529,655	$ 34,529,655	$ -	$ -
Commercial mortgage-backed securities	141,496,366	96,633,193	44,863,173	-
Residential mortgage-backed securities	8,712,111	5,901,357	2,810,754	-
Corporate notes and certificates of Deposit	26,965,333	16,180,169	10,785,164	-
	$211,703,465	$ 153,244,374	$ 58,459,091	$ -

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, 2018:

	Interest Rates	General Funds	Single-Family	Multi-Unit	Combined Total
Single-Family Mortgage Programs	3.25% - 8.90%	$ 7,666,736	$ -	$ -	$ 7,666,736
Multi-Unit Programs	1.20% - 6.95%	-	-	344,616,141	344,616,141
Less unamortized discount		(4,786)	-	-	(4,786)
		$ 7,661,950	$ -	$ 344,616,141	$ 352,278,091

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	$ 360,000
2009 Issue A, 3.35%-5.375%	October 1, 2039	23,180,000	1,610,000
2009 Issue B, 3.5%-5.25%	October 1, 2048	22,651,400	1,377,799
2009 Issue I-A, 3.010%	October 1, 2041	15,000,000	3,880,000
2010 Issue I, 2.45%-4.40%	April 1, 2027	10,000,000	1,365,000
2011 Issue A, 2.20%-4.625%	October 1, 2027	13,600,000	1,885,000
2009 Issue I-B, 3.53%	October 1, 2041	20,400,000	4,670,000
2009 Issue I-C, 2.32%	October 1, 2041	10,000,000	2,545,000
2011 Issue B, 2.05%-4.75%	October 1, 2033	15,000,000	3,040,000
2009 Issue I-D, 2.32%	October 1, 2036	30,700,000	13,270,000
2011 Issue C, 4.20%	October 1, 2022	5,500,000	2,380,000
2009 Issue I-E, 2.32%	October 1, 2041	26,240,000	11,330,000
2011 Issue D, 1.00%-4.40%	April 1, 2029	32,460,000	10,050,000
2014 Issue A, 0.50%-3.95%	October 1, 2044	40,652,596	23,916,771
Total single-family bonds		282,883,996	81,679,570
Multi-Unit Bonds:			
1996 Oakmont Flamingo, Variable	October 1, 2026	9,500,000	9,500,000
1999 Apache Pines, Variable	October 15, 2032	11,815,000	11,815,000
2000 Horizon Pines Sr. Apts., Variable	April 15, 2033	8,750,000	8,050,000
2002 Silver Pines, Variable	October 15, 2035	11,800,000	11,600,000
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	10,090,000
2002 Los Pecos, 2.90%-5.15%	April 1, 2036	8,800,000	6,830,000
2002 Los Pecos, 5.56%, Taxable	April 1, 2036	2,200,000	1,725,000
2003 L'Octaine Urban, Variable	April 1,2036	4,120,000	2,365,000
2004 Glenbrook Terrace, 4.20%-5.33%	April 1, 2037	18,000,000	14,405,000
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	4,360,000	3,720,000
2007 Golden Apartments, Variable	October 1, 2037	8,200,000	7,850,000
2007 Centennial Park, 4.90%	April 1, 2037	2,040,000	1,675,000
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

NOTE F - BONDS PAYABLE - Continued

	Maturity Date	Original Amount	Outstanding
Multi-Unit Bonds: - Continued			
2007 HELP Owens Apartments, Variable	October 1, 2042	$ 5,545,000	$ 1,965,000
2007 Arby Road Apartments, 5.35%-6.10%	April 1, 2041	11,450,000	9,855,000
2008 Sierra Manor Apartments, 6.95%	October 1, 2041	11,000,000	6,615,000
2011 Washoe Mill, 3.55%	April 1, 2029	8,820,000	8,050,000
2013 Henderson Apartments, 6%	September 1, 2046	15,000,000	14,293,127
2013 Agate Avenue, Variable	June 1, 2047	13,000,000	8,173,403
2014 Agate Seniors II, Variable	January 1, 2049	12,500,000	8,050,000
2015 Terracina Apartments, Variable	March 1, 2048	11,000,000	8,050,932
2015 501 N Lamb Apartments, Variable	January 1, 2049	21,500,000	9,387,468
2016 Boulder Pines 2, Variable	June 1, 2049	21,500,000	21,500,000
2016 Rose Garden Townhouses, 4.31%	June 1, 2049	8,075,000	8,066,732
2016 Vintage @ the Crossings, Variable	September 1, 2049	25,000,000	19,677,726
2017 Baltimore Cleveland, 4.71%	August 1, 2050	13,569,000	13,569,000
2017 Madison Palms, Variable	July 1, 2050	7,000,000	2,125,475
2017 Sierra Pointe & Granada, 1.20%	February 1, 2019	16,750,000	16,750,000
2017 Rose Gardens Seniors, Variable	November 1, 2050	13,000,000	5,822,727
2017 Steamboat Summit, Variable	October 1, 2050	45,000,000	6,121,594
2017 Sierra Pines, Variable	July 1, 2050	5,900,000	3,486,239
2018 Summit Club, 5.35%	February 1, 2058	90,000,000	90,000,000
2018 Sky Mountain, Variable	October 1, 2051	40,000,000	1,602,849
2018 Tenaya Seniors, Variable	April 1, 2021	30,000,000	2,626,166
Total multi-unit bonds		621,294,000	444,203,438
Combined total		$ 904,177,996	$ 525,883,008

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, 2018, for the following years, are:

	Single-Family		Multi-Unit		Combined Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Years ending June 30,						
2019	$ 2,000,000	$ 2,647,202	$ 27,384,973	$ 11,852,960	$ 29,384,973	$ 14,500,162
2020	2,065,000	2,592,007	2,230,247	11,640,608	4,295,247	14,232,615
2021	2,145,000	2,527,001	4,978,456	11,503,635	7,123,456	14,030,636
2022	2,235,000	2,519,152	2,481,507	11,308,757	4,716,507	13,827,909
2023	2,320,000	2,372,431	2,633,007	11,183,704	4,953,007	13,556,135
2024-2028	13,553,372	10,375,493	27,461,270	52,865,550	41,014,642	63,241,043
2029-2033	17,146,459	7,565,944	50,030,503	47,142,096	67,176,962	54,708,040
2034-2038	20,723,807	4,727,211	93,860,390	32,162,863	114,584,197	36,890,074
2039-2043	17,532,460	1,596,471	72,890,805	22,335,746	90,423,265	23,932,217
2044-2048	1,953,472	92,274	9,915,670	18,120,488	11,869,142	18,212,762
2049-2053	5,000	131	60,336,610	7,618,656	60,341,610	7,618,787
2050-2054	-	-	90,000,000	4,012,500	90,000,000	4,012,500
	$ 81,679,570	$ 37,015,317	$ 444,203,438	$ 241,747,563	$ 525,883,008	$278,762,880

Total interest expense for the year ended June 30, 2018 was $15,619,163.

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.

	Long-term Liabilities	Bonds Payable		Total
		Single-Family	Multi-Unit	
Balances at July 1, 2017	$ 3,279,807	$ 103,417,911	$ 410,997,768	$ 517,695,486
Increase	1,070,889	-	136,594,623	137,665,512
Decrease	(68,668)	(21,738,341)	(103,388,953)	(125,195,962)
Balances at June 30, 2018	$ 4,282,028	$ 81,679,570	$ 444,203,438	$ 530,165,036
Due within one year	$ -	$ 2,000,000	$ 27,384,973	$ 29,384,973

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, 2018 are as follows:

	General Funds	Single-Family	Multi-Unit	Combined Total
Investments	$ 177,591,082	$ 1,837,987	$ -	$ 179,429,069
Interest receivable	511,918	-	-	511,918
Principal payments	-	2,782	-	2,782
	$ 178,103,000	$ 1,840,769	$ -	$ 179,943,769

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 one of two contribution plans. Contributions are shared equally by employer and employee. Employees can take a reduced salary and have contributions made by the employer or can make contributions by a payroll deduction matched by the employer. The System's basic funding policy provides for periodic contributions at a level 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 years ended June 30, 2018 and 2017 the Statutory Employer/employee matching rate was 14.5%. The Employer-pay contribution rates was 28%. The Division's contribution to PERS for the years ended June 30, 2018, 2017 and 2016 were $139,272, $201,323 and $241,687, 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, 2017. Based on this report the Housing Division reported a liability of $3,071,137 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017. At June 30, 2017, the Housing Division's portion was 0.14 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, 2017	$ 2,762,355
Pension expense	482,786
Employer contributions	(207,268)
Increase in deferred outflows	44,982
Decrease in deferred inflows	(11,718)
Ending net pension liability, June 30, 2018	$ 3,071,137

For the year ended June 30, 2018 the Housing Division recognized pension expense of $482,786. At June 30, 2018, 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	$ -	$ 201,529
Changes of assumptions	203,741	-
Net difference between projected and actual earnings on investments	19,940	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	78,096	31,993
Division contributions subsequent to the measurement date	139,272	-
	$ 441,049	$ 233,522

The $139,272 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, 2019. Collective amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years ending June 30,	
2019	$ (169,696)
2020	219,673
2021	56,731
2022	(154,680)
2023	79,982
Thereafter	36,245
	$ 68,255

NOTE I - DEFINED BENEFIT PENSION PLAN - Continued

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

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Payroll growth	5%, including inflation
Productivity pay increases	0.5%
Projected salary increases	4.25%-9.15%, depending on service and including inflation and productivity increases
Investment rate of return	7.5%
Consumer Price Index	2.75%
Post-retirement benefit increases	2.75%, in line with inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Table projected to 2020 with Scale MP-2016 set forward one year for spouses and beneficiaries, reasonably reflects the projected mortality experience of the Plan as of the measurement date. The additional projection of 6 years is a provision made for future mortality improvement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience review completed in 2017. The actuarially determined contribution rates decreased by 1.19% for Regular members.

The following was the PERS' Board adopted policy target asset allocation as of June 30, 2017:

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, 2017, PERS' long-term inflation assumptions was 2.75%*

Discount Rate. The discount rate used to measure the total pension liability was 7.5% as of June 30, 2017. 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, 2017 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, 2017.

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 7.5%, 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
The Division's proportional share of the net pension liability	$ 4,642,702	$ 3,071,137	$ 1,765,928

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

General Information about the OPEB Plan

Plan description. The State Retiree's Health and Welfare Benefits Fund was created in 2007 by the Nevada Legislature to account for the financial assets designated to offset the portion of current and future costs of health and welfare benefits paid on behalf of state retirees. The Retiree's Fund is a multiple employer cost sharing defined postemployment benefit plan run by the PEBP Board. The Retiree's Fund provides benefits other than pensions to eligible retirees and their dependents through the payment of subsidies to PEBP which administers a group health and life insurance program.

Benefits provided. 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 Division's required contributions are set by the State of Nevada Department of Administration based on an amount provided by the Legislature each biennium in session law. The Retirees' Fund does not receive member contributions.

NOTE J - OTHER POSTEMPLOYMENT BENEFITS PLAN - Continued

General Information about the OPEB Plan - Continued

Contributions. Contributions to the fund are paid by the State of Nevada through an assessment of actual payroll paid by each State entity. The assessment is set by the Governor's Financial Office based on an amount provided by the Legislature each biennium in session law. The assessment was 2.36% and 2.13% of actual payroll for the years ending June 30, 2017 and 2016 respectively. Benefits are paid to the Public Employees' Benefits Program Self Insurance Trust Fund as necessary to offset retiree premiums pursuant to NRS 287.046. Funds not required to pay benefits are invested in the Retiree Benefits Investment Fund established pursuant to NRS 355.220 or are held in the State of Nevada general portfolio pursuant to NRS 226.110 as approved by the legislatively approved budget. Administrative costs of the Retirees' Fund are absorbed by the Self Insurance Trust Fund.

The Retiree's Fund is governed by the Public Employees Benefits Program Board of Trustees which consists of ten members who are appointed by the Governor of the State of Nevada. Each appointee represents a specific class of public employees, and local government employees. Additionally, two members must have substantial and demonstrated experience in risk management, health care administration, or employee benefits programs. One members must be employed in a managerial capacity for the Nevada State Department of Administration. These requirements are in accordance with NRS 287.041.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The current report is dated June 30, 2017. Based on this report the Housing Division reported a liability of $762,107 for its proportionate share of the OPEB liability. The OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017. The Housing Division allocation percentage of the net OPEB liability was based on the total contributions due on wages paid during the measurement period. At June 30, 2018 the Housing Division's proportion was 0.00097 percent of the State of Nevada, which is 60.3430% of the Plan.

Reconciliation of net OBEP liability	
Beginning net position, July 1, 2017	$ 753,568
OPEB expense	45,276
2017 contributions	(22,282)
Increase in deferred outflows	32,979
Decrease in deferred inflows	(47,434)
Ending net post-employment benefits liability, June 30, 2018	$ 762,107

NOTE J - OTHER POST-EMPLOYMENT BENEFITS PLAN - Continued

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

For the year ending June 30, 2018, the Housing Division recognized OPEB expense of $786,900. At June 30, 2018, the Housing Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 60
Changes of assumptions	-	47,374
Net difference between projected and actual earnings on OPEB investments	-	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	-
Division contributions subsequent to the measurement date	22,642	-
	$ 22,642	$ 47,434

The $32,979 reported as deferred outflows of resources related to OPEB resulting from the Division contributions subsequent to the measurement date will be recognized as a reduction in net OPEB liability in the year ending June 30, 2019.

Years ending June 30,	
2019	$ (12,548)
2020	(12,548)
2021	(12,548)
2022	(9,790)
	$ (47,434)

NOTE J - OTHER POSTEMPLOYMENT BENEFITS PLAN - Continued

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

Actuarial assumptions. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Payroll growth	2.75%, including inflation
Productivity pay increases	0.50%
Projected salary increases	1%-5.9%, depending on service and including inflation and productivity increases
Expected rate of return	3.58%, 20-year Municipal Bond Index
Healthcare cost trends rates	7.5% for 2018, decreasing 0.5% per year to an ultimate rate of 4.5% for 2016 and later years

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table projected to 2014 with Scale AA, 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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2017. As the Retirees' Fund is funded on a pay-as-you-go basis, the discounted rate is equal to the 20 year Municipal Bond Index rate of 3.58%

Discount Rate. The discount rate used to determine the fiscal year ending June 30, 2018 Total OPEB Liability is 3.58%, a decrease from the discount rate of 4.00% used under GASB 45 as of July 1, 2016. This decrease in the discount rate resulted in an increase in the Total OPEB Liability under GASB 75.

The Bond Buyer Obligation 20-Bond Municipal Bond Index is used for the determination of the discount rate. The assets in the trust as of June 30, 2017 are less than the expected benefit payments in the first year; therefore, the crossover period is assumed to be in the first year, which provides additional support for continuing the discount rate at the 20-Year Municipal bond Index rate.

The discount rates as of July 1, 2015, July 1, 2016 and July 1, 2017 are 3.80%, 2.85%, and 3.58% respectively.

NOTE J - OTHER POSTEMPLOYMENT BENEFITS PLAN - Continued

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

OPEB liability discount rate sensitivity. The following represents the Division's proportionate share of the net OPEB liability calculated using the discount rate of 3.58%, as well as the Systems' proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58%) or 1 percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase 4.58%)
The Division's proportional share of the net OPEB liability	$ 843,659	$ 762,107	$ 691,456

OPEB liability healthcare cost trends sensitivity. The following represents the Division's proportionate share of the net OPEB liability related to cost trends, as well as the Systems' proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Trend Rate	1% Increase
The Division's proportional share of the net OPEB liability	$ 713,259	$ 762,107	$ 819,710

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 expired in November 2016. The Division entered into a new lease through November 30, 2026, 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 was renewed through March 31, 2022.

Years ending June 30,	
2019	$ 341,713
2020	336,808
2021	315,036
2022	319,248
2023	324,748
Thereafter	630,835
	$ 2,268,388

Rent expense for the year ended June 30, 2018 was $336,757.

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 $448,784 as of June 30, 2018 recorded for down-payment assistance loans made in the Division's name with funding forwarded by NAHAC.

NOTE M - SUBSEQUENT EVENTS

The Company evaluated subsequent events through October 31, 2018, 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, 2018

	Budgeted Amounts		Actual Amounts	Vairance 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	$ -	$ -	$ -	$ -	$ 2,380,164 *(1)*	$ 2,380,164
Realized and unrealized gains on investments	-	-	-	-	(823,579) *(1)*	(823,579)
Total investment income	-	-	-	-	1,556,585	1,556,585
Interest income on mortgage loans	-	-	-	-	570,567 *(1)*	570,567
Other income	738,381	738,381	1,363,596	625,215	6,146,142 *(1)*	7,509,738
Federal grants	3,622,766	4,966,841	5,476,417	509,576	23,369 *(2)*	5,499,786
Total operating revenues	4,361,147	5,705,222	6,840,013	1,134,791	8,296,663	15,136,676
Operating expenses						
Salaries and other payroll costs	1,429,044	1,429,044	1,253,045	(175,999)	233,260 *(3)*	1,486,305
Administrative expenses	271,856	271,856	549,575	277,719	619,909 *(1)*	1,169,484
Depreciation	-	-	-	-	36,255	36,255
Servicers' fees	-	-	-	-	19,539 *(1)*	19,539
Interfund operating charge	(447,013)	(323,275)	(132,824)	190,451	(1,658,520) *(1)*	(1,791,344)
Amortization of issue costs	-	-	-	-	650,750	650,750
Reserve	848,850	249,583	-	(249,583)	-	-
Attorney general	23,909	23,909	23,909	-	(23,909) *(1)*	-
Federal grant expenses	3,023,912	4,902,955	4,272,400	(630,555)	1,474 *(2)*	4,273,874
Total operating expenses	5,150,558	6,554,072	5,966,105	(587,967)	(121,242)	5,844,863
CHANGE IN NET POSITION	(789,411)	(848,850)	873,907	1,722,757 -	8,417,906	9,291,813
Transfers	-	-	-	-	- *(1)*	-
Net position at beginning of year, as restated	-	-	528,549	528,549	194,733,861	195,262,410
Net position at end of year	$ (789,411)	$ (848,850)	$ 1,402,456	$ 2,251,306	$ 203,151,767	$ 204,554,223

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*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Division's proportion of the net pension liability	0.0231%	0.1280%	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	$3,071,137	$2,762,355	$2,604,548	$2,325,157							
Division's covered employee payroll	$1,397,876	$1,404,393	$1,483,397	$1,369,850							
Division's proportate share of the net pension liability as a percentage of its covered-employee payroll	219.70%	196.69%	175.58%	169.74%							
PERS fiduciary net position as a percentage of the total pension liability	290.88%	260.10%	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 - PENSIONS

Last 10 Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 139,272	$ 201,323	$ 241,687	$ 244,235	(Historical information prior to the implementation of GASB67/68 is not required)						
Contributions in relation to the contractually required contributions	(139,272)	(201,323)	(241,687)	(244,235)							
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -							
Division's covered-employee payroll	$ 963,425	$1,397,876	$1,404,393	$1,483,397							
Contributions as a percentage of covered-employee payroll	14.46%	14.40%	17.21%	16.46%							

Nevada Housing Division

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Division's proportion of the net OPEB liability	0.0970%		(Historical information prior to the implementation of GASB 75 is not required)							
Division's proportate share of the net OPEB liability	$ 762,107									
Division's covered employee payroll	$1,397,876									
Division's proportate share of the net OPEB liability as a percentage of its covered-employee payroll	54.52%									
OPEB fiduciary net position as a percentage of the total OPEB liability	8.60%									

** 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 - OPEB

Last 10 Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 22,642		(Historical information prior to the implementation of GASB 74/75 is not required)							
Contributions in relation to the contractually required contributions	(22,642)									
Contribution deficiency/(excess)	$ -									
Division's covered-employee payroll	$ 963,425									
Contributions as a percentage of covered-employee payroll	2.35%									

COMPLIANCE SECTION

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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 Nevada Housing Division (the "Division") as of and for the year ended June 30, 2018, 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, 2018.

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.

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, 2018