



Financial Statements and Report of Independent
Certified Public Accountants

Nevada Affordable Housing Assistance Corporation

June 30, 2014 and 2013

Contents

| | Page |
|--|------|
| Report of Independent Certified Public Accountants | 3 |
| Management's Discussion and Analysis | 5 |
| Basic Financial Statements | 8 |
| Statements of Net Position | 9 |
| Statements of Revenues, Expenses and Changes in Net Position | 10 |
| Statements of Cash Flows | 11 |
| Notes to Financial Statements | 12 |
| Compliance Section | 17 |
| Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 18 |
| Schedule of Findings and Responses | 20 |



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

Board of Directors
Nevada Affordable Housing Assistance Corporation

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities of the Nevada Affordable Housing Assistance Corporation (the "Corporation"), as of June 30, 2014 and 2013 and for each of the years then ended, and the related notes to the financial statements, which collectively comprise the Corporation'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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 Corporation'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 Corporation'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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Nevada Affordable Housing Assistance Corporation, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

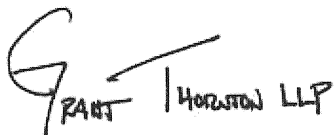
Other matters

Required supplementary information

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

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 11, 2015, on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.



Reno, Nevada
September 11, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nevada Affordable Housing Assistance Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Financial Statement Highlights–NAHAC

- The change in Net Position [bottom line] for NAHAC was \$(3,067,348).
- The change in Net Position was down \$17,474,969 in Fiscal Year 2014 from \$14,407,621 in Fiscal Year 2013 due to decreased program expenses and drawdowns from the US Treasury. Fiscal Year 2014 drawdowns totaled \$13,207,869 and Fiscal Year 2013 drawdowns totaled \$81,780,000. Fiscal Year 2014 Program Expenses were \$13,657,033 while Fiscal Year 2013 Program Expenses were \$62,046,626.
- Federal Grant and Contract revenue constituted \$13,207,869 and represented substantially all of gross revenue. Other income was \$408,772, primarily due to lien satisfaction recoveries.
- Salaries and payroll expenses paid amounted to \$1,972,553 during 2014.
- The net cash position of the NAHAC was \$16,664,810 at June 30, 2014 versus \$19,740,412 at June 30, 2013, or a decrease of \$3,075,602.

Overview of Financial Statements

The Statement of Net Position and Statement of Revenues and Expenses and Changes in Net Position reflect the financial position and results of operations from NAHAC's primary programs: administration of Nevada's "Hardest Hit Fund" Program from the U.S. Treasury, and the Down Payment Assistance Program. NAHAC had no outstanding notes payable as of June 30, 2014.

Financial Analysis

Total Assets: Total assets at June 30, 2014 were \$17,619,844. The four-year trend in total assets has been:

| 2014 | 2013 | 2012 | 2011 |
|---------------|---------------|--------------|--------------|
| \$ 17,619,844 | \$ 20,781,091 | \$ 6,362,206 | \$ 6,369,422 |

Total Liabilities: Total liabilities at June 30, 2014 were \$244,591, down \$93,899 or 28% from June 30, 2013. This decrease is primarily due to payments being made in current year for payables related to software upgrades. The four-year trend in total liabilities has been:

| 2014 | 2013 | 2012 | 2011 |
|------------|------------|------------|------------|
| \$ 244,591 | \$ 338,490 | \$ 218,776 | \$ 308,491 |

Total Assets: Total liability ratio trend for the past four years has been:

| 2014 | 2013 | 2012 | 2011 |
|-------|-------|-------|-------|
| 72.0X | 61.4X | 29.1X | 20.7X |

Nevada Affordable Housing Assistance Corporation

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

Financial Analysis - Continued

Net Position: Net position of NAHAC decreased to \$17,375,253 at June 30, 2014 down \$3,067,348 or 15% from June 30, 2013. This material decrease is primarily due to an increase of program expenses relative to drawdowns. The four-year trend in net position has been:

| 2014 | 2013 | 2012 | 2011 |
|---------------|---------------|--------------|--------------|
| \$ 17,375,253 | \$ 20,442,601 | \$ 6,034,980 | \$ 6,060,931 |

In the past four years, combined net position from the primary financial programs: “Hardest Hit Funds” program, down payment assistance funds, short-term contractor loan program have shown the following trend:

| Net Position | 2014 | 2013 | 2012 | 2011 |
|-----------------------------|---------------|---------------|--------------|--------------|
| “Hardest Hit Funds” program | \$ 16,418,929 | \$ 19,486,316 | \$ 4,896,630 | \$ 5,102,107 |
| Down payment loans | 956,324 | 956,285 | 953,350 | 958,824 |
| Loan Servicing program | - | - | 185,000 | - |

The four-year trend in total operating expenses has been:

| 2014 | 2013 | 2012 | 2011 |
|---------------|---------------|---------------|--------------|
| \$ 16,683,989 | \$ 67,393,151 | \$ 10,617,790 | \$ 2,388,740 |

Administrative Budget

The Nevada Affordable Housing Assistance Corporation administrative expense budget was approved by the Board of Directors at \$24,978,556 per the Twelfth Amendment to the Commitment to Purchase Financial Instrument and HFA Participation Agreement with the United States Treasury.

During the first half of the budget year ended June 30, 2014, NAHAC’s actual expenditures continue to remain substantially less than the budget.

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

For questions regarding the accompanying Basic Financial Statements, Notes and Supplementary Information, please visit our website at www.nevadahardesthitfund.nv.gov.

BASIC FINANCIAL STATEMENTS

Nevada Affordable Housing Assistance Corporation

STATEMENTS OF NET POSITION

June 30,

ASSETS

| | 2014 | 2013 |
|---|---------------|------------------|
| | | <i>(Revised)</i> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 16,664,810 | \$ 19,740,412 |
| Accounts receivable | 45,688 | 284 |
| Prepaid expenses | 30,807 | 38,321 |
| Total current assets | 16,741,305 | 19,779,017 |
| CAPITAL ASSETS, net | 18,397 | 91,008 |
| NON-CURRENT ASSETS | | |
| Long-term receivable from related parties | 853,147 | 903,135 |
| Deposits | 6,995 | 7,931 |
| Total assets | \$ 17,619,844 | \$ 20,781,091 |

LIABILITIES AND NET POSITION

| | | |
|---|---------------|---------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 32,000 | \$ 169,164 |
| Accounts payable to related parties | - | 59,937 |
| Client deposits | 48,337 | 56,165 |
| Accrued expenses | 164,254 | 53,224 |
| Total current liabilities | 244,591 | 338,490 |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 18,397 | 91,008 |
| Restricted | 17,356,856 | 20,351,593 |
| Total net position | 17,375,253 | 20,442,601 |
| Total liabilities and net position | \$ 17,619,844 | \$ 20,781,091 |

The accompanying notes are an integral part of these statements.

Nevada Affordable Housing Assistance Corporation

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

Years ended June 30,

| | 2014 | 2013 |
|--|---------------|------------------|
| | | <i>(Revised)</i> |
| Operating support and revenue | | |
| Grant revenue | \$ 13,207,869 | \$ 81,780,000 |
| Total operating revenue | 13,207,869 | 81,780,000 |
| Operating expenses | | |
| Program expenses | | |
| Principal reduction | 4,469,823 | 45,129,106 |
| Second lien relief | 823,623 | 1,205,886 |
| Short sale assistance | - | 198,447 |
| Mortgage assistance | 7,887,172 | 14,110,398 |
| Mortgage assistance alternative | 476,415 | 1,067,789 |
| Grant expenses | - | 335,000 |
| Total program expenses | 13,657,033 | 62,046,626 |
| Administrative expenses | | |
| Counseling fees | 342,512 | 1,798,117 |
| Bank and recording fees | 78,437 | 21,949 |
| IT communications and website | 115,473 | 247,377 |
| Depreciation | 72,611 | 55,911 |
| Insurance | 42,858 | 20,292 |
| Buildings, leases and equipment | 140,079 | 163,596 |
| Miscellaneous | (47,750) | 86,717 |
| Loan servicing program | - | 705,000 |
| Office supplies and postage | 34,431 | 55,047 |
| Professional services and marketing | 235,002 | 113,368 |
| Salaries and payroll expenses | 1,972,553 | 2,051,337 |
| Travel | 39,076 | 25,389 |
| Training | 1,674 | 2,425 |
| Total administrative expenses | 3,026,956 | 5,346,525 |
| Total operating expenses | 16,683,989 | 67,393,151 |
| Non-operating revenue | | |
| Lien Satisfaction Recoveries | 352,206 | 19,669 |
| Other income | 56,566 | 1,103 |
| Total non-operating revenue | 408,772 | 20,772 |
| CHANGE IN NET POSITION | (3,067,348) | 14,407,621 |
| Net position at beginning of year | 20,442,601 | 6,034,980 |
| Net position at end of year | \$ 17,375,253 | \$ 20,442,601 |

The accompanying notes are an integral part of these statements.

Nevada Affordable Housing Assistance Corporation

STATEMENTS OF CASH FLOWS

Years ended June 30,

| | 2014 | 2013 |
|---|----------------|------------------|
| Cash flows from operating activities: | | <i>(Revised)</i> |
| Grant revenue | \$ 13,207,869 | \$ 81,780,000 |
| Lien Satisfaction Recoveries | 352,206 | 19,669 |
| Other income | 56,566 | 1,103 |
| Cash received from program participants | 2,493,789 | 4,603,955 |
| Cash paid for programs | (16,150,822) | (66,315,581) |
| Cash received from related parties | 49,988 | 36,398 |
| Cash paid to related party | (59,937) | - |
| Cash paid to employees | (1,651,176) | (1,448,604) |
| Cash paid to suppliers | (1,374,085) | (3,955,132) |
| Net cash provided by (used in) operating activities | (3,075,602) | 14,721,808 |
| Cash flows from capital financing activities | | |
| Purchase of capital assets | - | (127,009) |
| Net cash used in capital financing activities | - | (127,009) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,075,602) | 14,594,799 |
| Cash and cash equivalents, beginning | 19,740,412 | 5,145,613 |
| Cash and cash equivalents, ending | \$ 16,664,810 | \$ 19,740,412 |
| Reconciliation of change in net position to net cash provided by (used in) operating activities: | | |
| Change in net position | \$ (3,067,348) | \$ 14,407,621 |
| Adjustments to reconcile change in net position to net cash provided by operating activities: | | |
| Depreciation | 72,611 | 55,911 |
| Loss on disposal of assets | - | 31,966 |
| Changes in: | | |
| Accounts receivable | (45,404) | 3,326 |
| Prepaid expenses | 7,514 | 64,970 |
| Long-term receivable from related party | 49,988 | 36,398 |
| Deposits | 936 | 1,902 |
| Accounts payable to related party | (59,937) | 54,637 |
| Accounts payable | (137,164) | 96,137 |
| Client deposits | (7,828) | (37,831) |
| Accrued expenses | 111,030 | 6,771 |
| Net cash provided by (used in) operating activities | \$ (3,075,602) | \$ 14,721,808 |

The accompanying notes are an integral part of these statements.

Nevada Affordable Housing Assistance Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In 2010, NAHAC was selected to administer the “Hardest Hit Funds” Program for the State of Nevada by the U.S. Treasury. Nevada was awarded over \$194 million in funds available to qualified recipients through a series of federal grants to help Nevada homeowners. Programs available to homeowners are the Mortgage Assistance Program (MAP) (ongoing), the Mortgage Assistance Program Alternative (MAPA) (inactive since October 1, 2012), the Principal Reduction/Curtailment Program (inactive since December 15, 2012), the Second Mortgage Reduction Plan (inactive since December 15, 2012) and the Short Sale Acceleration Program (inactive since December 31, 2012). MAP participants receive assistance for up to nine months with the possibility of a 3 month extension, where NAHAC pays up to \$1,000 per month. A final component of MAP is the reinstatement program in that NAHAC will pay \$12,500 to the participants’ lender.

When NAHAC was formed, it was determined that the Nevada Housing Division (“NHD”) was financially accountable for NAHAC as it appointed a voting majority of NAHAC’s governing body. Therefore, NAHAC was reported as a discreetly presented component unit of NHD. In February 2013, due to changes in NAHAC’s Board, and how board members are appointed, it was determined that NAHAC is no longer a component unit of NHD.

A summary of NAHAC’s significant accounting policies applied in the preparation of the accompanying financial statements follows.

1. Financial Reporting

During the period ended June 30, 2013, NAHAC adopted Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporated into GASB’s authoritative literature certain accounting and financial reporting guidance included in the pronouncements of the FASB and American Institute of Certified Public Accountants (AICPA). This statement also superseded GASB Statement No. 20, and eliminated the election to apply post November 30, 1989 FASB pronouncements. NAHAC adopted this guidance, and it is reflected in the financial statements for the years ended June 30, 2014 and 2013.

Nevada Affordable Housing Assistance Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. Financial Reporting - Continued

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

In order to ensure observance of limitations and restrictions placed on the use of resources available to NAHAC, its accounts are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been recorded and reported by fund group as follows:

Unrestricted Fund - Represents funds that are not restricted and are available for the general operations and programs of NAHAC, there were no unrestricted funds at June 30, 2014 or 2013.

Restricted Fund - Represents funds that are restricted by grant requirements and may only be utilized in accordance with purposes established by such grants. These funds are primarily restricted for administration of Nevada's "Hardest Hit Funds" Program. Funds are also restricted for advances to the Nevada Housing Division and Low Income Housing Trust Fund; these entities use the advances to purchase long-term deferred payment and interest second mortgages. Lastly, funds are restricted for purposes of the loan servicing grant NAHAC received from NHD (see Note E).

2. Recognition of Revenue

Grant revenue is recognized when received. Interest income is recognized when earned.

3. Cash and Cash Equivalents

NAHAC considers all highly liquid short-term interest bearing investments purchased with an original maturity of three months or less and money market funds to be cash equivalents.

4. Concentrations of Credit Risk

Financial Instruments which potentially subject the NAHAC to concentrations of credit risk consist primarily of cash and receivables.

Cash includes amounts deposited in financial institutions in excess of insurable Federal Deposit Insurance Corporation limits.

At June 30, 2014 and 2013, management believes that all receivable amounts are fully collectible.

5. Income Taxes

NAHAC is a nonprofit corporation, exempt from income tax under Internal Revenue Code Section 501(c)(3), and is thus qualified to receive the charitable contribution deduction. Accordingly, no liability for Federal income taxes has been provided in the financial statements.

Nevada Affordable Housing Assistance Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Use of Estimates

In preparing 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Depreciation

Depreciation is provided for in amounts sufficient to relate the costs of depreciable assets to operations over their estimated useful service lives on a straight-line basis. Assets associated with the Hardest Hit Funds Program are depreciated over two years based on the estimated duration of the program. All other assets are depreciated over useful lives of 3-5 years.

8. Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation. These reclassifications did not impact previously reported change in net position.

9. Revision of Prior Year Financial Statements

Subsequent to the issuance of NAHAC's financial statements for the year ended June 30, 2013, management determined that an error was recorded related to the recording of long-term receivables from related parties. The Company evaluated the effects of this error on the financial statements and concluded that the error was not material to any prior period. The financial statements have been adjusted to reflect a reduction in long-term receivables from related parties of \$443,450 and a reduction in beginning restricted net position of \$108,450 as of June 30, 2013 and additional grant expense of \$355,000 for the year ended June 30, 2013.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30:

| | 2014 | 2013 |
|--------------------|---------------|---------------|
| Cash | \$ 16,561,632 | \$ 19,687,422 |
| Money market funds | 103,178 | 52,990 |
| | \$ 16,664,810 | \$ 19,740,412 |

Risk Factors

Custodial Credit Risk-Deposits

In the event of a bank failure, NAHAC's deposits exceed FDIC limits and may not be returned to NAHAC. All cash deposits are on deposit with two financial institutions. NAHAC does not have a deposit policy for custodial credit risk.

Nevada Affordable Housing Assistance Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE C - CAPITAL ASSETS

Capital assets consisted of the following at June 30:

| | 2013 | Increases | Decreases | 2014 |
|-----------------------------------|------------|-------------|-----------|------------|
| Office equipment | \$ 134,778 | \$ - | \$ - | \$ 134,778 |
| Computer hardware and software | 163,994 | - | - | 163,994 |
| | 298,772 | - | - | 298,772 |
| Accumulated depreciation | (207,764) | (72,611) | - | (280,375) |
| | \$ 91,008 | \$ (72,611) | \$ - | \$ 18,397 |

Depreciation expense was \$72,611 and \$55,911 for the years ended June 30, 2014 and 2013, respectively.

NOTE D - OPERATING LEASES

NAHAC has various non-cancelable operating leases with certain renewal and escalation clauses. The following is a schedule of the future minimum operating lease payments at June 30, 2014:

| Years ending June 30, | |
|-----------------------|------------|
| 2015 | \$ 162,200 |
| 2016 | 148,961 |
| 2017 | 144,523 |
| 2018 | 1,312 |
| | \$ 456,996 |

Rent expense for all operating leases was \$108,332 and \$78,019 for the years ended June 30, 2014 and 2013, respectively, and included certain contingent amounts for maintenance of the leased space.

NOTE E - RELATED PARTY TRANSACTIONS

In June 2008, NAHAC received a \$940,000 grant from NHD to promote the development of use of decent, safe and sanitary housing for persons eligible as determined within Nevada Assembly Bill 629. The funds from the grant were to be used for the creation of employer assisted housing programs. Pursuant to this Grant Award, NAHAC entered into a Memorandum of Understanding with the Culinary Union of Clark County, Nevada (the "Culinary MOU") which provided that NAHAC would partner with the Culinary Union to provide funding to the Culinary Union's down payment assistance program. NAHAC and the Culinary Union each provided 50 percent of the funds for down payment assistance loans to qualified employees. The loans were 0% loans with no monthly payments which are due and payable upon a sale, transfer of title or refinance. At the time the loans are paid off, 50% of the proceeds are to be paid to the Culinary Union and 50% to NAHAC. The loans are serviced by the Nevada Housing Division and the Nevada Housing Division is named as the lender on the documentation evidencing the loans, including the deeds of trust securing the loans. At June 30, 2014 and 2013, this totaled \$853,147 and \$903,134 and was recorded in long-term receivables from related parties.

Nevada Affordable Housing Assistance Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE E – RELATED PARTY TRANSACTIONS - Continued

NHD has made two (2) grants to NAHAC from its Low-Income Housing Trust Fund (“LIHTF”):

1. A grant in the amount of \$118,450 for the purposes of assisting with a homebuyer program. The loan documents associated with this program are in the name of NHD and NAHAC does not administer this grant or service the loans. Pursuant to the agreement awarding these funds, any repaid funds are to be returned to NHD.
2. A grant in the amount of \$325,000 to be used to install solar panels on the College Villas Seniors Apartments in Henderson, Nevada which is a low income housing project partially funded by NHD. Pursuant to the terms of the grant award agreement, this grant was in the form of a deferred loan which would be paid back to NHD “upon the sale of said project.”

NAHAC received \$0 and \$340,000 in grant revenue from LIHTF for the years ended June 30, 2014 and 2013, respectively. NAHAC recorded \$0 and \$335,000 in grant expenditures for the years ended June 30, 2014 and 2013, respectively. Effective June 1, 2014, the agreement from which NAHAC received grants through the LIHTF was terminated.

During the years ended June 30, 2014 and 2013, respectively, NHD granted NAHAC \$0 and \$520,000 for computer upgrades to the NAHAC network and to fund an escrow account in order to begin servicing loans for NHD, these balances are included in grant revenue on the Statement of Revenues, Expenses and Changes in Net Position. In May 2013, these assets were transferred back to NHD, as NAHAC would no longer be servicing loans, which is accounted for on the Loan Servicing Program line in Administrative expenses on the Statement of Revenues, Expenses and Changes in Net Position.

NOTE F – INDEPENDENT REVIEW OF ADMINISTRATIVE EXPENSES.

Subsequent to year-end, the Company’s compliance department performed a review of various administrative expenses. In addition, the U.S. Treasury Department conducted an on-site compliance review of the Company’s Hardest Hit Funds programs for the period covering April 1, 2013 through September 30, 2014. The Company also engaged an independent accounting firm to perform an independent review of the Company’s administrative expenses. The purpose of the investigations were to determine if the administrative expenses paid during that period were allowable under OMB Circular A-087, the Commitment to Purchase Financial Instrument and HFA Participation Agreement and amendments thereto, NAHAC’s internal policies and any applicable policies of the State of Nevada. The results of the investigations indicated findings totaling \$81,439 of either unallowable expenses or expenses for which it could not be determined if the expense was allowable or unallowable based on a lack of supporting evidence. \$43,748 of the unallowable expenses noted were deemed reimbursable and have been recorded as a receivable on the accompanying balance sheets as of June 30, 2014. Of the total amount deemed reimbursable, \$33,859 was collected subsequent to year-end. Management also identified \$8,995 in expenses deemed allowable after conducting an additional investigation, leaving a final net total of \$28,696 of either unallowable expenses or expenses for which it could not be determined if the expense was allowable or unallowable. The matter is currently being reviewed by the U.S. Treasury Department and others with exception of the receivable balance noted above, the financial statements have not been adjusted to reflect any outcome that might result from this matter.

COMPLIANCE SECTION



Audit • Tax • Advisory

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*

Board of Directors
Nevada Affordable Housing Assistance Corporation

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 Affordable Housing Assistance Corporation (the "Corporation"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 11, 2015.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. However, we identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2014-001, that we consider to be material weaknesses in the Corporation's internal control.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Corporation'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 Corporation'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 Corporation's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "GRANT THORNTON LLP". The signature is stylized, with a large "G" and "T" that are connected to the rest of the text.

Reno, Nevada
September 11, 2015

Nevada Affordable Housing Assistance Corporation

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2014

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of independent certified public accountants' report issued: unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? none reported

SECTION II — FINANCIAL STATEMENT FINDINGS

Material Weaknesses

Item 2014-001

During our audit we noted that due to significant turnover experienced during the year, the Company did not perform appropriate periodic reconciliations. Subsequent to year-end, there was continued significant turnover. In an effort to reconcile accounts, management posted additional journal entries to Quickbooks, and changed transactions for FY2014, and prior periods, after we had conducted our fieldwork. Further, although ultimately detected through monitoring controls by the Company's compliance department, the lack of proper internal controls relating to oversight and authorization allowed expenses to be incurred that were not allowable under Company policy and/or the Hardest Hit Funds Agreement. It is imperative that the Company have appropriate internal controls in place, and to reconcile all general ledger accounts to supporting documentation to ensure the accuracy of financial information and minimize the risk of misstatement or misappropriation.

The audit team notes that this Material Weakness represents an unremediated issue identified during the prior period audit.

Management's response

We concur with the finding. All applicable general ledger accounts are now being reconciled on a monthly basis. Further, to ensure proper checks and balances and appropriate oversight, assigned management-level personnel are reviewing said reconciliations for accuracy – to include follow-up of all outstanding reconciling items – with documented evidence of the same. The Corporation has implemented a new expense travel request and reimbursement policy and a new cash disbursements and wire policy to avoid the improper use of funds in the future. In addition, we have added an auxiliary board made up of two individuals from the State of Nevada's Department of Business and Industry Division and one external individual to provide advice on policies and activities relating to funding programs created for the benefit of Nevada homeowners.