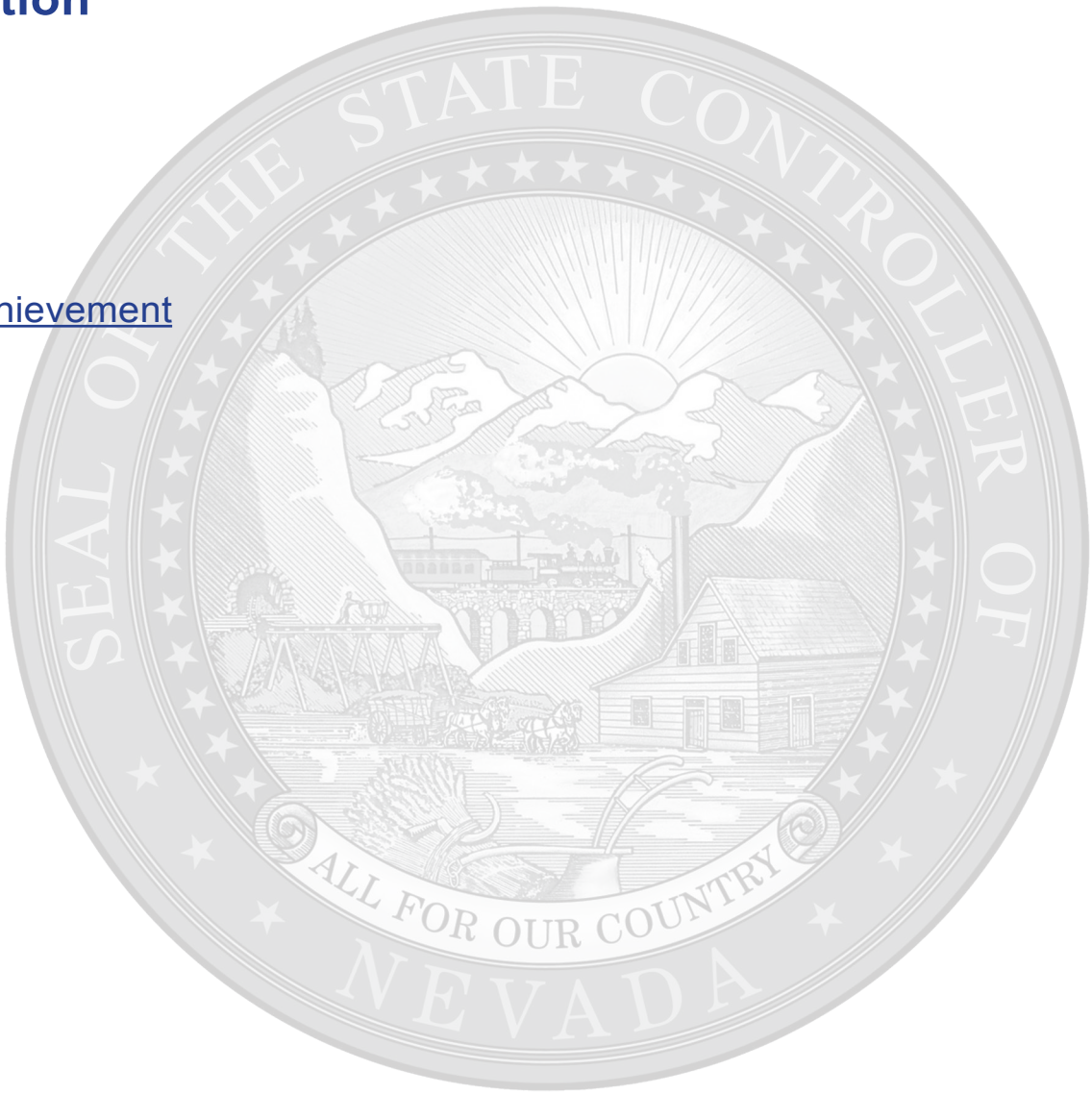
Introductory Section

Letter of Transmittal
Constitutional Officers
Organizational Chart
GFOA Certificate of Achievement



State of Nevada

Comprehensive Annual Financial Report

for the Fiscal Year
Ended June 30, 2015

Ron Knecht, MS, JD, PE(CA)
State Controller

PHOTO. 7/24/55

Ron Knecht, MS, JD & PE(CA)
State Controller

Ron Knecht, an economist, financial and policy analyst, Professional Mechanical Engineer (registered in California), and law-school graduate, became Controller January 5, 2015. As Controller, he also serves on Nevada's Board of Finance, Executive Branch Audit Committee and Department of Transportation Board of Directors.

Before being elected Controller, he divided 44 working years between public service and entrepreneurial small business, all in managerial and senior professional positions. He's been a founder, executive or director for 12 firms, charities, community-service and public-interest groups.

In previous jobs, he testified extensively as an expert witness. In 2012-14, 1986-2001 and 1976-78, he was a consultant and business executive. In 2001-12, he was a senior economist at Nevada's Public Utilities Commission. He held principal economics, finance, technology and policy positions in 1978-86 at California's Energy and Public Utilities Commissions.

In 2009-13 he co-taught about ten two-day seminars for SNL Financial on utility finance, cost of capital, and economic and policy issues for regulators, professionals, managers, executives and securities analysts. In 1973-77, he was a Research Associate and Research Engineer at the University of Illinois. In 1972-73 he was Assistant City Engineer in Urbana, Illinois.

Ron was elected to the Board of Regents of the Nevada System of Higher Education in 2006 and re-elected in 2012. For two years, he chaired the Budget & Finance Committee and was Vice-chair another year; he chaired the Audit Committee for two years; and for seven years he was very active on the Investment and Major Projects Committee, which oversees $1-billion of endowment and operating funds. He served on four other committees and on institutional presidential selection and performance-review committees, chairing two of them. Ron was elected to the Nevada Assembly for 2002-04, representing Carson City and Washoe City.

With some scholarship support, he worked his way through undergraduate and early graduate studies at the University of Illinois (BA, Liberal Arts & Sciences; mathematics major; physics & chemistry minor; 1971). Spending most of his working career in San Francisco and Silicon Valley, he paid his way at Stanford University (MS, Engineering Economic Systems; 1989) and the University of San Francisco (JD; 1995) by working full time. He's been a columnist for various print and on-line papers, and has taught part-time at two colleges.

The most important things in Ron's life are his wife, Kathy, their teenage daughter Karyn, and Ron and Kathy's mothers and families. Raised in a small Midwestern town, he's always been active in a wide range of athletics and outdoor activities -- a competitive distance runner in high school and college. He enjoys ballet, modern dance, symphony, opera, rock & roll, country & western, theater and film, and he collects baseball cards and pursues other hobbies.

NEVADA

Table of Contents

Introductory Section

Letter of Transmittal i
Constitutional Officers x
Organizational Chart xi
GFOA Certificate of Achievement xii

Financial Section

Independent Auditor's Report 2
Management's Discussion and Analysis 6

Basic Financial Statements
- Government-Wide Financial Statements
  - Statement of Net Position 18
  - Statement of Activities 20
- Fund Financial Statements
  - Balance Sheet - Governmental Funds 22
  - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 25
  - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds 26
  - Reconciliation of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 29
  - Statement of Net Position - Proprietary Funds 30
  - Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds 33
  - Statement of Cash Flows - Proprietary Funds 34
  - Statement of Fiduciary Net Position - Fiduciary Funds 36
  - Statement of Changes in Fiduciary Net Position - Fiduciary Funds 37
  - Combining Statement of Net Position - Discretely Presented Component Units 38
  - Combining Statement of Activities - Discretely Presented Component Units 39
- Notes to the Financial Statements 41

Required Supplementary Information
- Budgetary Comparison Schedule - General Fund and Major Special Revenue Funds 88
- Notes to Required Supplementary Information - Budgetary Reporting 91
- Pension Plan Information 92
- Schedule of Infrastructure Condition and Maintenance Data 94

Combining Statements and Schedules
- Nonmajor Governmental Funds
  - Combining Balance Sheet 98
  - Combining Statement of Revenues, Expenditures and Changes in Fund Balances 99
  - Nonmajor Special Revenue Funds
    - Combining Balance Sheet 100
    - Combining Statement of Revenues, Expenditures and Changes in Fund Balances 104
  - Other Nonmajor Governmental Funds
    - Combining Balance Sheet 108
    - Combining Statement of Revenues, Expenditures and Changes in Fund Balances 110

FINANCIAL SECTION (continued)

Schedule of Total Uses - Budget and Actual, Non-GAAP Budgetary Basis - All General Fund Budgets..... 112
Schedule of Total Uses - Budget and Actual, Non-GAAP Budgetary Basis - All Special Revenue Fund Budgets.. 121
Schedule of Sources - Budget and Actual, Non-GAAP Budgetary Basis - All Nonmajor Special Revenue Fund Budgets.. 124

Nonmajor Enterprise Funds
Combining Statement of Net Position..... 128
Combining Statement of Revenues, Expenses and Changes in Fund Net Position..... 130
Combining Statement of Cash Flows..... 132

Internal Service Funds
Combining Statement of Net Position..... 136
Combining Statement of Revenues, Expenses and Changes in Fund Net Position..... 138
Combining Statement of Cash Flows..... 140

Fiduciary Funds
Combining Statement of Fiduciary Net Position–Pension and Other Employee Benefit Trust, Investment Trust and Private–Purpose Trust Funds..... 144
Combining Statement of Changes in Fiduciary Net Position–Pension and Other Employee Benefit Trust, Investment Trust and Private–Purpose Trust Funds..... 146
Combining Statement of Fiduciary Assets and Liabilites–Agency Funds..... 148
Combining Statement of Changes in Assets and Liabilities - Agency Funds..... 150

STATISTICAL SECTION

Table 1 - Net Position by Component..... 154
Table 2 - Changes in Net Position..... 154
Table 3 - Fund Balances of Governmental Funds..... 156
Table 4 - Changes in Fund Balances of Governmental Funds..... 156
Table 5 - Taxable Sales by County..... 158
Table 6 - Principal Sales Tax Payers by Business Type..... 158
Table 7 - Ratios of Outstanding Debt by Type..... 159
Table 8 - Ratios of General Bonded Debt Outstanding..... 160
Table 9 - Legal Debt Margin Information..... 161
Table 10 - Pledged Revenue Coverage..... 162
Table 11 - Demographic and Economic Statistics..... 163
Table 12 - Principal Employers..... 164
Table 13 - School Enrollment..... 165
Table 14 - Full-time Equivalent State Government Employees by Function..... 165
Table 15 - Operating Indicators by Function..... 166
Table 16 - Capital Asset Statistics by Function..... 168

COMPLIANCE SECTION

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.. 170

SEAL OF THE STATE CONTROLLER OF
ALL FOR OUR COUNTRY
NEVADA

RON KNECHT,
MS, JD, PE(CA)
State Controller

STATE OF NEVADA

JAMES W. SMACK
Chief Deputy Controller

GEOFFREY LAWRENCE
Assistant Controller

OFFICE OF THE
STATE CONTROLLER

December 21, 2015

To the Citizens, Governor and Legislators of the State of Nevada:

In accordance with Nevada Revised Statutes (NRS) 227.110 and the State Accounting Procedures Law (NRS 353.291 through 353.3245), I am pleased to present the State of Nevada Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. The objective of this Report is to provide a clear picture of the government as a single, unified entity, in addition to traditional fund-based financial statements.

Introduction to the Report

Responsibility: The Controller's Office prepares the State of Nevada CAFR and is responsible for the accuracy, completeness, and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the State of Nevada CAFR is accurate in all material respects and is reported in a manner that fairly presents the financial position and results of operations of the State's primary government and the component units for which it is financially accountable. Additionally, this report includes all disclosures necessary to enable the reader to gain a reasonable understanding of Nevada's financial activities.

U.S. Generally Accepted Accounting Principles: As required by State Accounting Procedures Law, this report has been prepared in accordance with U.S. generally accepted accounting principles (GAAP), applicable to State and Local Governments as established by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Internal Control Structure: The State of Nevada has established a comprehensive internal control framework designed to both safeguard the government's assets against loss from unauthorized use or theft, and to properly record and adequately document transactions. As a result, the transactions can be compiled into the presentation of the State's financial statements in conformity with U.S. GAAP. Since the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement.

Many of our essential control features are decentralized. Hence, the State relies upon the controls in place within its various departments and agencies. NRS 353A.025 requires the heads of agencies to review their internal controls on a periodic basis to determine if the agency is in compliance with the Uniform System of Internal Accounting and Administrative Controls adopted pursuant to NRS 353A.020. On or prior to July 1 of even-numbered years, agencies are required to report the status of their internal controls to the Department of Administration.

Independent Auditors: The independent accounting firm of Eide Bailly LLP has audited the accompanying financial statements in accordance with generally accepted governmental auditing standards. Their opinion appears in the Financial Section of this publication. The goal of the independent audit is to provide reasonable assurance that the financial statements of the State of Nevada are free of material misstatement. We received an unqualified

opinion on the basic financial statements for this fiscal year. The independent audit of the financial statements of the State of Nevada is part of a broader, federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the financial statements. This report can be found in the Compliance Section of the CAFR, and in the State of Nevada's separately issued Single Audit Report.

Management's Discussion and Analysis: U.S. generally accepted accounting principles require management to provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Profile of Government

Background: The Nevada Territory was carved out of the Utah Territory by Congress in 1861 and its boundaries were subsequently expanded eastward in 1862 and eastward and southward in 1866. In 1864, Nevada was granted statehood after transmitting its newly ratified constitution to Congress in the longest and costliest transmission by telegraph in history. This allowed statehood to be conferred on October 31, just days ahead of the November 8 presidential election at a time President Lincoln thought he might need Nevada's electoral votes to secure reelection.

The Great Basin Desert dominates the Nevada landscape, with the Sierra Nevada Mountains to the west and the Rocky Mountains to the east. Federal agencies own and control more than 80 percent of Nevada's 70,264,320 acres, meaning most of Nevada's land area is restricted from use and development by private citizens. Local governments are also unable to collect property taxes on these lands to sustain vital public services, although they do receive less valuable Payments in Lieu of Taxes from the federal government. Due greatly to the shortage of land available for citizens, more than 90% of our 2.8 million residents are squeezed into one of two distinct population centers: the Reno/Sparks/Carson City area near Lake Tahoe and Clark County at the southeast tip, separated by 450 miles.

Nevadans enjoy the absence of a personal income tax but labor under a variety of indirect taxes that are assessed on businesses and thus passed onto consumers in the form of higher prices and to workers in the form of suppressed wage and employment growth. Nevada has offered a continuous legal market for gaming since 1935, allowing that industry to thrive in the state while also financing a significant share of public services. The State operates under a constitution that provides for a full range of services, including education, health and social services, highway maintenance and construction, law enforcement, public safety, business regulation, and resource development.

Reporting Entity: The State of Nevada, as described in Note 1 to the basic financial statements, is the reporting entity for this CAFR, which conforms to the requirements of GASB Statement No. 14 as amended by GASB Statement No. 61. The accounting and reporting principles reflected in these statements are based primarily upon the fundamental concept that publicly elected officials are accountable to their constituents, and that financial statements should emphasize primary government and permit financial statement users to distinguish between the state and its component units. The primary government includes the Public Employees', Legislators' and Judicial Retirement Systems, and the Nevada Real Property Corporation. The State Legislature sets statutorily the parameters within which these entities operate. The Nevada System of Higher Education, Colorado River Commission, and Nevada Capital Investment Corporation are shown separately as legally separate component units.

Financial Information

Debt Management: The State Constitution limits the aggregate principal amount of the general obligation debt to two percent of the total reported assessed property value of the State. Additional disclosures regarding the State's long-term obligations are provided in the notes to the basic financial statements.

Long-Term Financial Planning and Financial Policies: State law (NRS 353.205) requires a balanced budget. The Governor must submit a proposed budget for the Executive Branch to the State Legislature before each regular session, which convenes every odd-numbered year. Spending levels under this Executive Budget proposal may not exceed the amounts that existed during the biennial budget period that began July 1, 1975, adjusted for population growth and inflation. However, the Legislature enacts the budget through passage of the General Appropriations Act and the Authorized Expenditures Act and the legislatively approved budget is not constrained by this growth limitation. Once passed and signed, the budget becomes the State's financial plan for the next two fiscal years.

In accordance with State statute, The Economic Forum, comprised of private economic and financial experts appointed by the Legislature and the Governor, sets the General Fund revenue forecasts which are binding on the budget. If revenues fall below those originally anticipated during the course of the fiscal year, the Governor must revise the budget to ensure that State appropriations do not exceed revenues. If the revisions exceed thresholds specified in NRS 353.220, they must be submitted to the Legislative Interim Finance Committee for approval.

Economic Outlook

Economic outlook discussions in reports like this one are typically based on business-cycle analyses. That approach is based on assuming there are no salient long-term developments -- or "secular trends" -- to disrupt the cyclical outlook. As we show, important secular trends have been developing over decades and have already wrought profound changes in the U.S. and Nevada economies -- and substantially changed the outlook. We discuss trends in four areas, followed by a synthesis of these trends for the long-term U.S. economic outlook, concluding with Nevada-specific considerations. More outlook discussion is posted on the Controller's web site, controller.nv.gov.

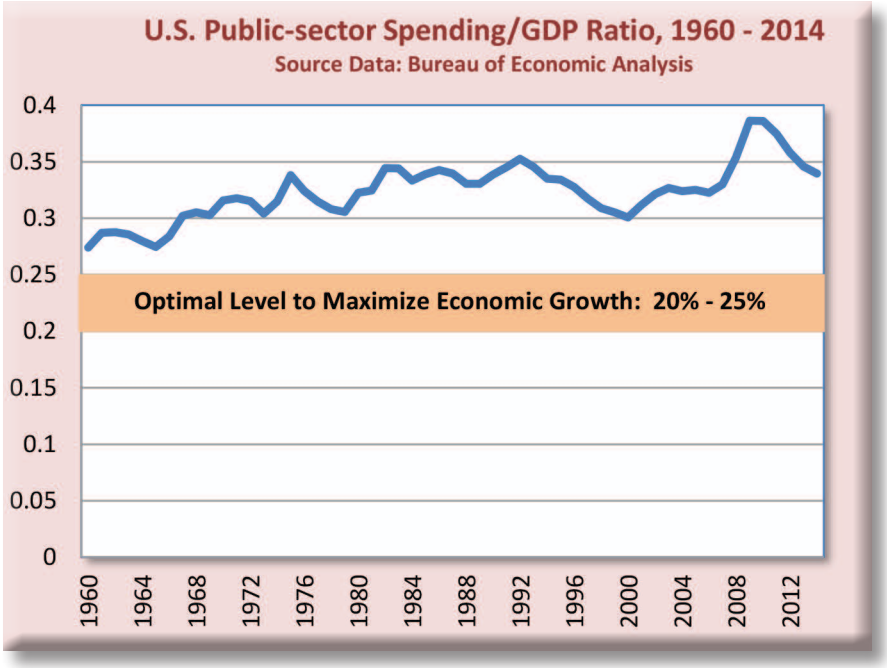
Below, we show first that the size, scope and reach of government have long been excessive relative to our economy, yet still growing; that has resulted in an increasingly substantial drag on economic growth. For decades this burden was offset by three growth-inducing factors: 1) demographic and labor-force participation trends; 2) increasing debt levels; and 3) rapid growth in emerging economies, plus globalization (increasing trade and foreign domestic investment). Unfortunately, trends in all three areas have reversed. So, for the foreseeable future, economic growth will be suppressed perhaps even from current 2% real annual rates (or 1% per person per year).

Government Overreach: The size, scope and reach of American government – including spending, taxing, borrowing, regulation, monetary and credit-allocation policy, and other intervention – long ago exceeded levels that promote the public interest in maximum economic growth and fairness. These excesses at federal, state and local levels have increasingly slowed growth and will continue to do so unless they are reined in. Economists now understand that economic growth and thus aggregate human wellbeing levels are determined more by the economic, political and social institutions, practices and policies of a society than by geographic, infrastructure, resources and other earlier development-theory factors. The rule of law, limited government with separation of powers, personal liberty and individual rights, strong property rights and high levels of economic freedom are essential for growth.

As detailed on the Controller's web site, empirical literature – research based on real economic data – supports and quantifies theory suggesting that there's an optimal range of government spending that maximizes economic growth. There are classically defined public goods that are most efficiently provided by government and there are market failures that justify regulation and other intervention, but excess spending, scope and reach of the public sector diverts efficient private investment and consumption, and it is a drag on growth.

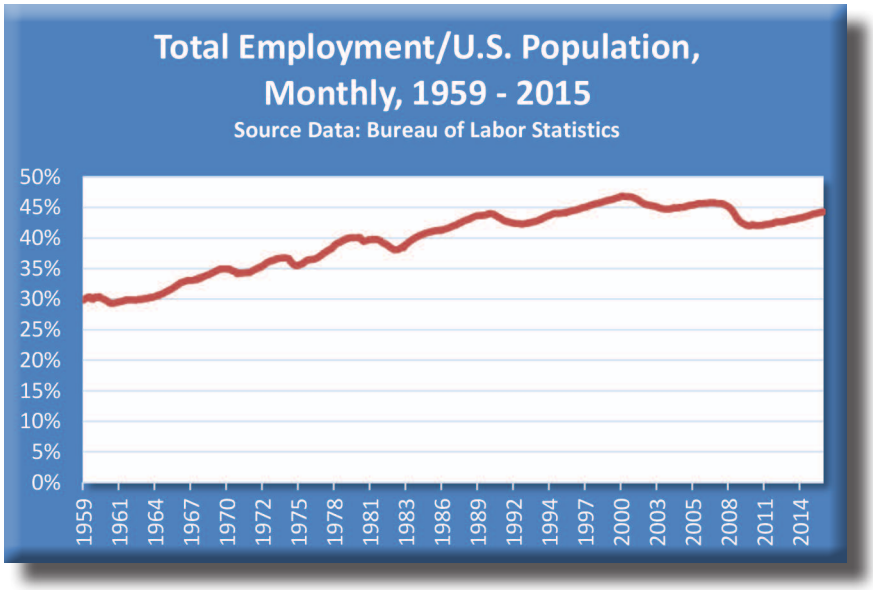
While there are uncertainties and debate about the levels of public spending relative to the economy that maximize growth, the best evidence shows that the U.S. passed those levels by the 1960s and has increased government excess to the present time. The chart below of public spending over time as a percentage of the U.S. economy vividly illustrates this point. The excess growth has not been limited to the federal government; state and local spending have grown even faster in relative terms. Nevada's local-government and total public-sector spending have grown particularly fast. Nationally, increasing government intervention in health care has driven up its cost and its share of the economy relative to optimal levels and has thereby contributed to slowing of economic growth.

While public spending is the measure of government overreach easiest to quantify, analyze and understand as a growth determinant, other measures also drive and reflect the excess. Taxes and public debt are directly driven by public spending, and public debt has now reached its highest level relative to the gross domestic product (GDP) since the early 1950s, when the debt from World War II was being worked off. Government regulation in a wide range of economic, environmental, public health and safety areas, plus intervention including monetary stimulus and credit allocation and federalization of health insurance and education have all increased to unprecedented levels and metastasized in the last decade. The net effect has been an increasing drag on economic growth, and with the overreach at record levels and still increasing, the drag may even get worse.



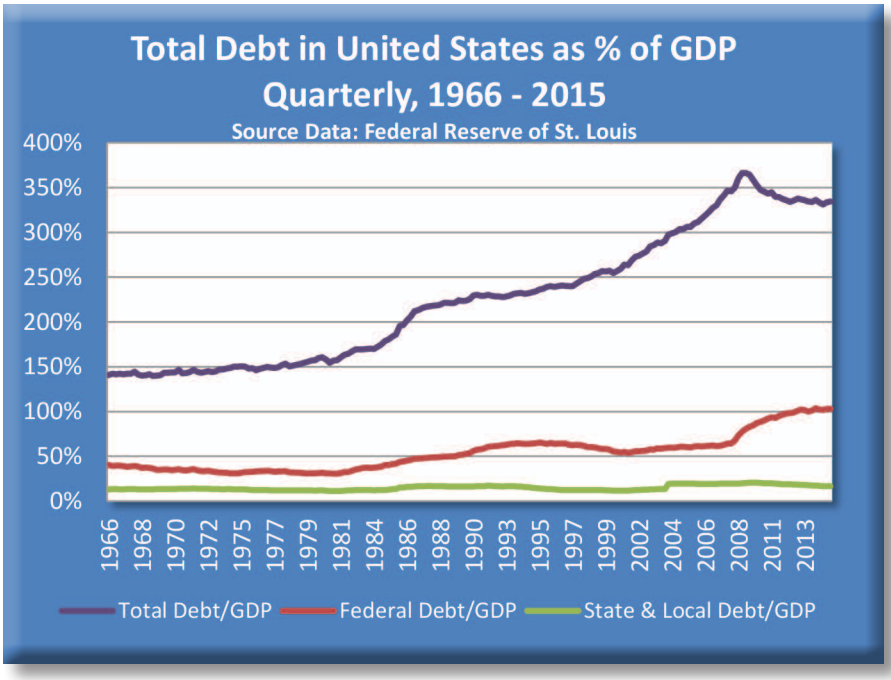
Demographics and Work-force Participation: Demographic changes driven by public policy and non-policy factors are reducing the fraction of the population doing productive work, while increasing numbers consuming but not producing. These changes include falling birth rates, increasing longevity, increasing public support for retirement and subsidy of persons not working, and changing social and economic roles of men and women. These changes are slowing growth and may even bring social upheaval.

The 1970s movement of Baby Boomers into working age, plus the movement then and later of women into paid work drove labor-force participation to a record level of 67.1% in 2001. The aging of Boomers into retirement years, plus declining birth rates in younger cohorts, the slippage of female workforce participation and the non-recovery from the Great Recession have all dropped participation to 62.4%, the lowest level since 1977. Falling labor-force participation in the 16-54 age range more than offsets recent increases for the 55+ group, netting a continued decline in total employment ratios. Low unemployment rates are due to counting "discouraged workers" out of the labor force and to increases in "under-employed" part-timers – both driven by the non-recovery and palliative effects of increases in benefits to people not working. As the nearby graph shows, through 2002, demographic and workforce participation factors gave a huge boost to economic growth countering public-sector over-reach, with the employment/population ratio rising more than 56% in 42 years (from 0.30 to 0.47).



However, since 2002, these factors have reinforced the increasing drag from government excess that depresses growth. The movement of the large Boomer cohort into retirement began in 2011 and will accelerate and then continue for 20 more years. Because retirement age and support policies were set when longevity was lower and health of people over 60 was less robust, U.S. dependent/producer ratios will continue to rise relative to what they would be under market incentives. So, total-factor productivity and thus the economy will continue to grow slowly. The burden on productive cohorts will increase, especially with slow income growth, leading perhaps to social upheaval in the absence of significantly increased legal immigration. Slow economic growth and low interest rates and other rates of return on investment will challenge retirement funding and exacerbate all these problems.

Debt in All Sectors and Net Saving and Investment: Total debt levels relative to the U.S. economy increased hugely until the financial crash and Great Recession of 2007-09. As shown in the nearby graph of total American debt as a percentage of the economy, they have retrenched only mildly since then, leaving an excess-leverage overhang that may not be receding. All debt sectors are involved: government at all levels; business; and households (mortgage, auto, student and consumer loans, etc.). Monetary and credit-allocation policy drove much of the metastasis, especially in the decade ending 2008, providing artificial and unsustainable temporary stimulus to growth. It also produced mal-investment, and that problem plus deleveraging have already contributed to weak business earnings and anemic economic growth; it will continue to do so for the foreseeable future. The resulting sustained low interest rates have destroyed much economic wealth and damaged institutional retirement and endowment investors and savers.

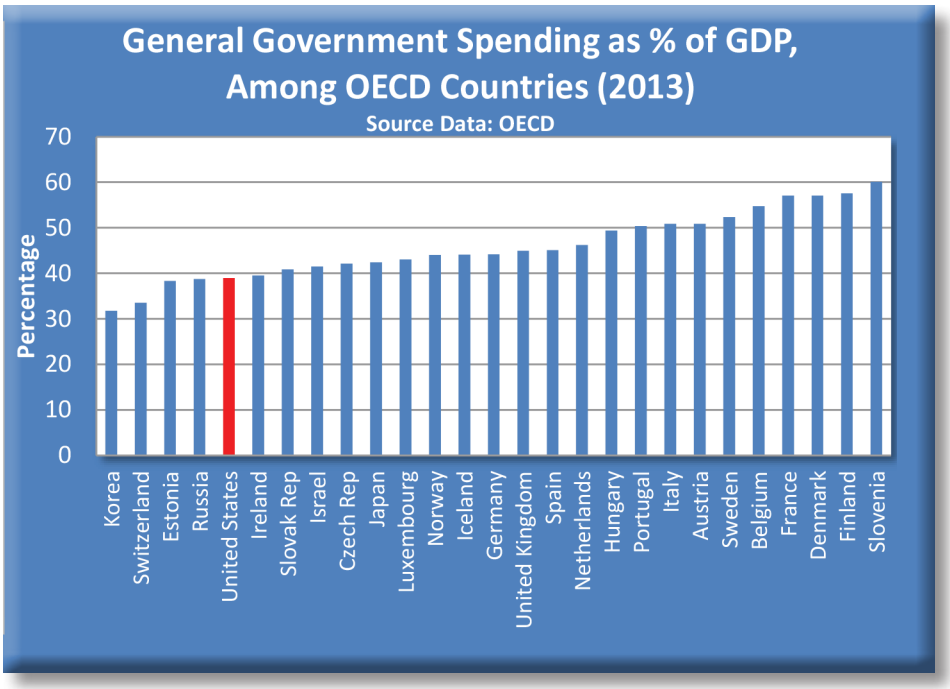


Total U.S. debt/GDP ratios in 2014 were twice their 1984 levels, despite retrenchment following the financial crash and Great Recession. Consumer debt growth was driven mainly by federal mortgage lending policies, causing the housing bubble and subsequent collapse. Business debt grew in finance and large corporate stock buybacks, mergers and acquisitions, meaning there is now perhaps an equity bubble. Federal government total debt/GDP ratios have more than doubled as fiscal and monetary policy have been used to try to ameliorate the negative growth effects of a wide range of public policies. Further retrenchment from current debt levels is needed to restore the economy, so demand for capital and interest rates and investment returns will remain low, as will economic growth.

International Economic Growth, Trade and Investment: Until the Great Recession, long-term growth of the world and developing economies, especially China, was more rapid than in the U.S. and other advanced nations. Driven by and contributing to 1) increasing globalization, 2) trade and 3) foreign direct investment in the U.S., this growth increased U.S. economic growth by lowering costs to American consumers and businesses and spurring more efficient investment and production by domestic and foreign businesses.

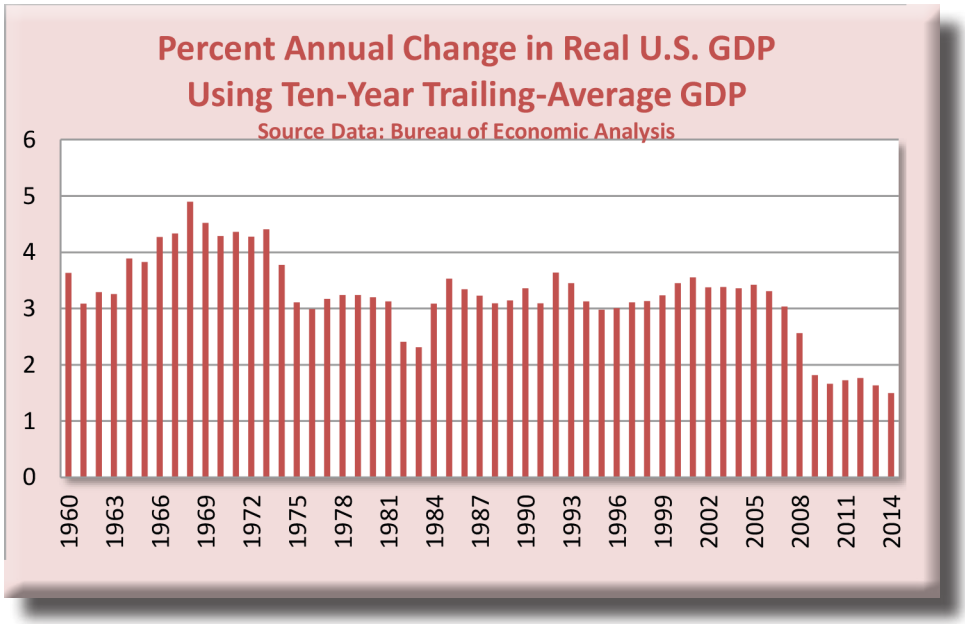
Since 2007, trade increases have lagged world economic growth. Growth in China and other developing nations has slowed, further depressing American growth. The three factors above that now retard U.S. economic growth are even worse in other major economies, advanced and developing. While this makes our economy the "cleanest dirty shirt in the laundry pile" for investors, it also means the global trade and investment cavalry will not be riding to our rescue. The world economy will no longer spur U.S. economic growth as it did before the Great Recession.

The problems of excess and still growing size, reach and scope of government are worse in every other major economy than in the U.S., as shown in the nearby chart. So are demographic problems of low birth rates and labor force participation plus increased aging. So, Europe (the only other comparably-sized economy) and Japan continue to struggle as they long have done with very low growth. China has grown hugely into the second-largest national economy, but the command-and-control methods that remain even after its liberalization have yielded massive mal-investment and debt growth. Due to mal-investment, persistent low consumer demand and the recently eased one-child policy, an historically awful policy mistake and human tragedy, China is headed for ever lower and possibly negative growth. All other economies are too small to make a significant difference to U.S. growth.



Total debt worldwide is now about 5.6 times what it was 20 years ago, while the world economy is only 2.8 times its prior size, meaning debt/GDP ratios have doubled in only two decades. That increase is likely unsustainable even with increasing development and globalization, leading to future retrenchment. Europe is now following Japan and the U.S. into monetary and credit-allocation overreach, and Italy and others (possibly including Japan and China) soon may face Reinhart/Rogoff excess debt levels (debt above 90% of GDP leading to financial collapse). Birth rates being an inverse function of women's education and wealth levels explains much of the world demographic problem, but in India and Africa they are dropping even faster than education and income indicate.

Upshot: Continued Slow Economic Growth: All four mutually reinforcing problems discussed above have already produced the poorest recession recovery on record, with real growth of about 2% annually – or, adjusting for population increase, real per-person growth of about 1%. With none of these factors abating (and perhaps increasing), the most reasonable outlook is economic and productivity growth at recent anemic rates or even lower. The nearby chart of rolling ten-year growth rates shows that U.S. economic growth has long been declining due to these factors and has collapsed to record sustained low levels since 2008. Growth at 1% per person per year sounds only slightly lower than historic 2.5% levels, but the compounding impact is huge: Average human



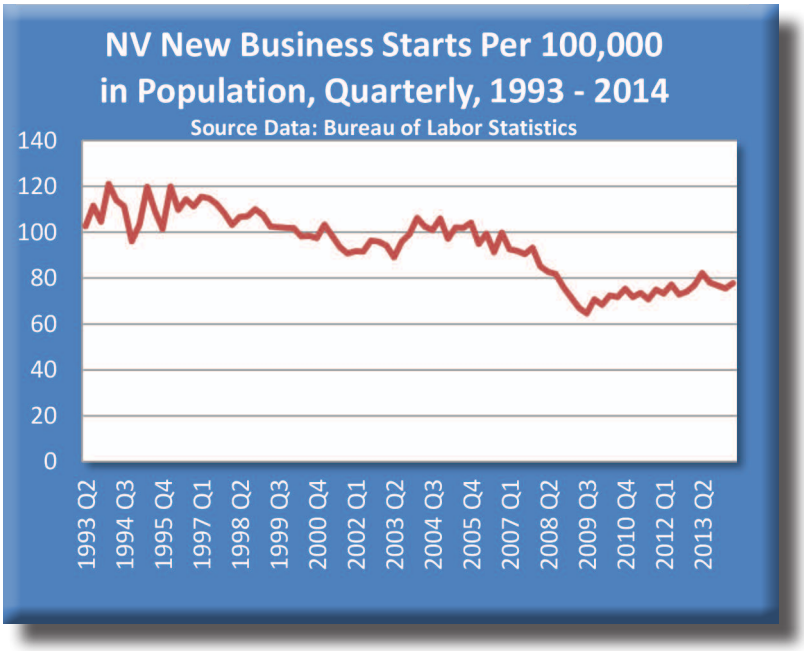
wellbeing growing only 32% each generation instead of doubling, the social norm for 300 years. So, instead of average family incomes doubling from $50,000 yearly to $100,000, they will grow only to $66,000. Restoring the economic growth legacy left by previous generations, an essential public policy need, requires government to grow slower than the economy for decades.

Down-side risks may even make things worse. Some economists claim that invention, innovation and technological progress have slowed from levels of recent decades, meaning that this key driver of growth will have a diminished effect and economic growth will fall toward zero. A related issue is that the recent slow growth has occurred despite falling energy and other commodity prices that, all other things remaining equal, would have increased it; possible returns of these prices to historical levels could dampen growth even further. Two other factors are likely to further burden economic growth: 1) slow economic growth produces low investment returns, which in turn tend to keep growth lower in a negative feedback loop; and 2) our current recovery, anemic as it has been, is now longer than the average cyclical upturn and may be due for a contraction. We see no salient upside factors in the U.S. outlook.

Nevada Prospects Are Similar to U.S. Prospects: Nevada's overall tax levels, whether measured as a fraction of the economy or by per-capita tax burden, lie squarely in the middle among the states, and they may rise significantly due to the new spending and taxes promulgated in 2015 by the Legislature and Governor. The state has long practiced onerous regulation of professions and occupations and recently intervened in housing finance in ways adverse to growth. In assisting destructive federal policies in health care, education and energy, state policy further retards growth. Nevada's demographic/workforce outlook is no better than the national picture, especially due to modest workforce education levels. Further, there's no reason to believe Nevada will do better on non-state debt levels, or on trade and foreign direct investment. Historically, Nevada and the Southwest have grown much faster than the U.S., but their net in-migration has slowed greatly. So, despite faster growth currently than most states, the most prudent forecast for Nevada is growth at the anemic national rates. Moreover, the dominance of the outlook by secular trends obviates fine-tuned state cyclical growth estimates. A notable bright spot is that Nevada has managed conservatively its debt load; so, maintaining its creditworthiness will be assured by continued prudence.

Between 2011 and 2014, Nevada's state gross domestic product grew meagerly from $118.9 billion to $120.8 billion (in constant 2009 dollars). Per capita, that's a growth rate of 0.53%, ranking 43rd among the states in that period. This poor recovery comes on the heels of an economic recession in which Nevada saw the largest per-capita decline in GDP of any state. Between 2007 and 2010, per-capita GDP shrunk by an average of 5.87% annually versus a national shrinkage of 1.23%. Even more concerning are some deteriorating fundamentals. Since 2007, Nevada's median household income has fallen from $61,700 to $49,900 and the poverty rate increased from 9.7% to 17.0%.

Further, entrepreneurial activity in Nevada remains at historically low levels. As shown in the nearby graph, startup density, measured by the number of business starts per 100,000 persons, fell roughly 30% between the mid-1990s and recent years, according to Bureau of Labor Statistics data. Non-governmental data sources, providing a longer time series, indicate that startup density has fallen 61% since 1977. This long-run decline in entrepreneurial activity portends a less dynamic state economy. Studies indicate that nearly all net new U.S. job growth is attributable to startups, so future Nevada economic growth prospects may be significantly diminished if entrepreneurial activity does not rebound to historic levels.



In sum: Government at all levels has long been so big, yet still growing relative to our economy, that it increasingly consumes our time, energy and productivity, crowds out private entrepreneurship and business spending and investment, and thereby stifles economic growth. Until 2002, falling birth rates plus Baby Boomers and women entering the workforce greatly mitigated this problem. Sustained low birth rates leading to small working-age cohorts, plus somewhat falling rates of workforce participation by women and by men ages 16-54, have lately decreased the fraction of the population working and the producer/dependent ratios that fed earlier growth.

Increasing debt levels relative to the economy, which were mainly driven by policy far into unsustainable territory, promoted growth until the financial crash. Mild retrenchment during the non-recovery has not worked off the overhang; so, slow growth of non-government debt demand will add to the drag on growth. Rapid growth of developing economies, plus faster growth of trade and foreign domestic investment also helped greatly until 2009. Growth most places has slowed since then because the government overreach, demographic and workforce participation and debt problems are worse in other major economies; plus, trade is now growing slower than the world economy. The most reasonable expectation is that these world trends will continue, not improve, despite (or even due to) low commodity and energy prices.

Hence, all four fundamental factors are now driving U.S. economic growth down from the current 2% annual real levels (1% per person), and human wellbeing will grow much slower in the future than in the last 300 years. The increasing time since the Great Recession also suggests cyclical factors may stunt growth in coming years. Nevada is not exempt from this unfortunate outlook: Its public-sector metastasis has been greater and is continuing; other demographic, debt and international trade and investment factors do not portend improvement from the national economic outlook. Nevada's creditworthiness is a single bright spot. However, low economic growth will yield low expected investment returns, greatly challenging management of the state's retirement and endowment funds.

Major State Initiatives

Business Growth: In 2008-10, the number of business closures in Nevada exceeded business starts. This trend has been reversed since 2011. The state's economic development strategy, however, has focused mainly on the relocation of large firms from other states and new plant locations in Nevada instead of promoting domestic entrepreneurship. Notable recent announcements in this area include the location of a battery manufacturing plant for Tesla Motors in northwest Nevada using a $1.2 billion tax incentive package; also, location of a Faraday Future auto manufacturing plant in southern Nevada, aided by a $335 million package of tax incentives and infrastructure grants. The state has a Catalyst Fund offering cash payments to businesses locating or expanding in Nevada, plus an array of tax credits and abatements. The numbers of companies to receive state assistance have increased dramatically in recent years, from 29 in 2009 to 113 in 2013 and 71 through the first three quarters of 2015.

It is unclear that this is the best approach in face of a long-term decline in domestic entrepreneurship. This concern was expressed by SRI International and the Brookings Institution in a draft economic development plan for Nevada. "Winning a relocation," the contractors assert, "might make the headlines, but as research...shows, job gains and losses are overwhelmingly driven by intra-state business dynamics rather than the between-state movement of firms." In light of this observation, it may be advisable to promote native entrepreneurship through the educational curricula and by lowering barriers to entry for new firms into the marketplace, such as those imposed through occupational and other licensing requirements that are often more strenuous in Nevada than elsewhere.

Resource Development: Coeur Mining, Inc. is working to expand its mining operations near Lovelock, Nevada with production scheduled for 2017. A draft environmental impact statement was completed in October 2015 and is expected to be finalized in early 2016. The expansion would increase authorized surface disturbance of the existing operation by 231 acres. The 2015 legislature increased the Modified Business Tax rate facing mining companies to 2.0% while increasing the rate for other nonfinancial firms to 1.475%. The change is estimated to raise the cost of MBT facing mining companies to $17.4 million per annum. In addition, the current prepayment requirement for the Net Proceeds of Minerals Tax was removed beginning FY17, helping the industry.

Education: Student performance in Nevada K-12 schools lies in the middle-to-lower range among five adjacent states, despite higher per-student spending levels than three out of five of them. Nationally and internationally, student performance is not statistically correlated with spending. However, while again increasing K-12 spending greatly, the 2015 Legislature enacted the nation's most expansive school choice program. Beginning in FY16, every child enrolled in a Nevada public school may request an Education Savings Account (ESA) that can be used to finance a customized educational curriculum for the child. ESA funds can be used to pay for private tuition, tutoring, online courses or materials. Students who apply and meet eligibility criteria will receive at least $5,139 deposited annually into their ESA. However, there are pending legal challenges to the program.

Health and Human Services: Medicaid enrollment grew to 580,852 in September 2015, nearly double the 332,560 of just two years earlier. In 2013 the Legislature and Governor expanded Medicaid eligibility criteria, pursuant to the federal Affordable Care Act, making all individuals with incomes up to 138% of the federal poverty level eligible, including single, childless, able-bodied adults. This expansion, plus tax penalties under the Act for failing to procure health insurance, have been direct causes of enrollment growth. Expected rapid enrollment growth will create challenges for Nevada in the near future. While the Act provided federal funding to cover the entire cost of coverage for newly eligible persons in 2016, this federal support begins to decline in 2017 to 90% of coverage costs by 2020. Given federal budget constraints, this percentage may continue to decline after 2020, shifting the cost of this coverage to states, and it could impose significant financial burdens on their budgets. The additional cost to Nevada taxpayers of optional and mandated coverage expansions has been estimated by independent sources at up to $5.4 billion cumulatively by 2023. This cost burden will either displace existing priorities for state spending, result in tax increases beyond those enacted by the 2015 Legislature, or both.

Transportation: The Nevada Department of Transportation (NDOT) completed one major project in September 2014. The I-15 South Cactus Avenue Interchange in Southern Nevada was finished within budget and ahead of schedule. No other major projects were completed in Fiscal Year 2015. Nevada is beginning work on major transportation projects expected to be completed in coming years, including the massive Project Neon in Las Vegas and the USA Parkway in northwestern Nevada. These will be followed by the I-11 corridor developments between those two areas, and the state is developing a comprehensive freight plan. NDOT project schedules are contingent on the availability of funding, which is likely to be aided significantly by recent passage of the federal FAST Act.

Awards and Acknowledgments

GFOA Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Nevada for its CAFR for the fiscal year ended June 30, 2014. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. A copy of the GFOA Certificate of Achievement is included in the Introductory Section of the CAFR. A Certificate of Achievement is valid for only a one-year period. We believe that this current CAFR continues to meet the requirements of Certificate of Achievement Program, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments and Conclusion: This report would not have been possible without the hard work, dedication and professionalism of my staff and the cooperation and assistance from all State agencies, Executive, Legislature and Judiciary. I sincerely appreciate the efforts of all the individuals involved, especially the Controller's Office staff. We are committed to advancing accountability, continuity and efficiency in the State's financial operations.

Sincerely,

Ronald L. Knecht, MS, JD & PE(CA)
Nevada State Controller

State of Nevada Constitutional Officers

Brian Sandoval
Governor

Mark Hutchison
Lieutenant Governor

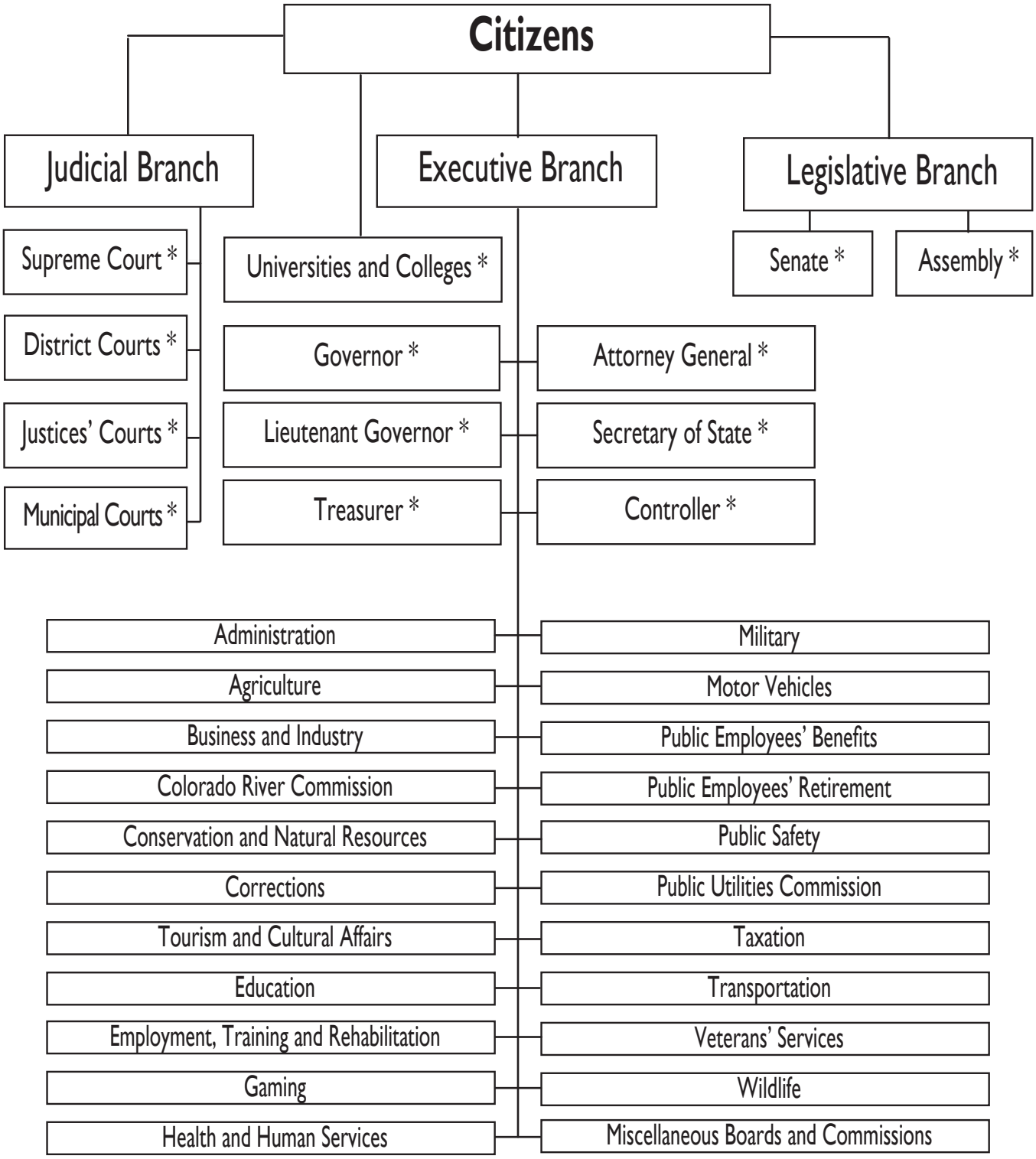
Barbara Cegavske
Secretary of State

Dan Schwartz
Treasurer

Ron Knecht
Controller

Adam Paul Laxalt
Attorney General

Organizational Chart



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