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Kentucky Housing Corporation
Audited Financial Statements and Supplemental Combining Information

June 30, 2011

CONTENTS

Independent Auditors' Report

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Kentucky Housing Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Corporation as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated *September 25, 2011* 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The combining fund financial statements on pages 48 through 51 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statements are the responsibility of the management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole

Mountjoy Chilton Medley LLP

Frankfort, Kentucky
September 25, 2011

Management's discussion and analysis of Kentucky Housing Corporation's financial performance provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Corporation-Wide net assets increased by 1.0% or $3.4 million as a result of fiscal year 2011 operations and an increase in the market value of investments and mortgage-backed securities (MBS's) of $6.7 million.
- Volatile financial and mortgage loan markets, the tightening between taxable and tax-exempt borrowing interest rates, depressed short-term investment rates, and the pricing of mortgage products created significant challenges for the Corporation to maintain profitability as well as competitiveness in the mortgage market during fiscal year 2011.
- Government Accounting Standards require investment securities, including MBS's, to be reported at their current fair market value. As previously noted, declining interest rates resulted in increases to the fair market value of investment securities and MBS's of $6.7 million.
- Short-term interest rates continued to be near historically low levels throughout the entire fiscal year resulting in a further reduction in investment earnings.
- Increased levels of foreclosures and delinquencies in the Corporation's single-family mortgage portfolio resulted in reduced interest income on loans.
- The Corporation experienced loan losses totaling $1.1 million on its single-family loan portfolio in fiscal 2011. As a result, the Corporation increased its overall provision for losses.

Overview of the Financial Statements

The financial statements consist of four parts – this management's discussion and analysis, the basic financial statements, the notes to the financial statements and supplemental combining information. The basic financial statements include two different series of statements that present the Corporation's financial position and performance.

- Corporation-Wide financial statements consist of a Statement of Net Assets and a Statement of Activities. These statements display information about the Corporation as a whole and are presented using the economic resources measurement focus and the accrual basis of accounting as used by private-sector businesses. Activities of the Corporation are distinguished as being either "governmental" or "business-type" activities.

- Fund financial statements report additional and detailed information about the Corporation.

Governmental activities are reported under Governmental Funds financial statements. These statements consist of a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. Governmental Funds statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting used predominately in the public-sector.

Continued

Business-type activities are reported under Proprietary Funds financial statements. These statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. Proprietary Funds statements are also presented using the economic resources measurement focus and the accrual basis of accounting.

Corporation-Wide Financial Statements – Pages 16 and 17

The Kentucky Housing Corporation was created by state statute in 1972 as a de jure municipal corporation and political subdivision of the Commonwealth of Kentucky. The Corporation was created to serve a public purpose by increasing the supply of safe, decent and affordable residential housing.

The Corporation operates a number of programs consistent with the mandate to produce residential housing. Several programs are identified within the financial statements as governmental activities because they are financed with intergovernmental revenues. Significant governmental activities financed by the federal government include the Department of Housing and Urban Development's ("HUD") Home Investment Partnerships Program ("HOME"), HUD's Section 8 rental assistance programs ("Section 8"), the Department of Energy's Weatherization Assistance ("Weatherization") program and the U.S. Treasury's Unemployment Bridge Program. The Affordable Housing Trust Fund, which provides assistance to very-low income persons in meeting their basic housing needs, is funded by a portion of the fees received by County Clerks for recording and indexing various documents. Other governmental activities are financed by the Commonwealth of Kentucky.

The Corporation also operates a number of programs that are identified as business-type activities. These activities include providing below-market interest rate financing to qualified homebuyers and developers of affordable rental housing, mortgage loan servicing and the administration of the Federal Housing Credit.

The Corporation-Wide financial statements separately present the governmental and business-type activities of the Corporation. The nature of the Corporation's governmental activities is such that substantially all funds flow through the Corporation to ultimate program recipients. As a result, the Balance Sheet related to governmental activities shows a relatively small amount of assets, representing monies received by the Corporation but unexpended for each respective program's purpose. Conversely, the business-type activities of the Corporation create the vast majority of the Corporation's assets, liabilities and net assets as reflected in the Statement of Net Assets. The overall financial condition of the Corporation can thus be best evaluated through the analysis of business-type activities described in pages 8-12 of this document and under the Proprietary Funds' financial statements on pages 20-24.

The Statement of Activities shows the financial performance of each significant governmental and business-type activity operated by the Corporation over the past year. The expenses and revenues associated with each activity are shown as well as a net amount showing whether revenues exceeded expenses. The net revenue of all governmental activities (after transfers) results in an increase (decrease) in the net assets (fund balances) that are to be expended for program purposes. The net revenue (profit) of all business-type activities results in an increase in the net assets (wealth) of the Corporation.

Continued

The combined net assets of the Corporation increased by $3.4 million from June 30, 2010 to June 30, 2011. Table 1 shows condensed financial information from the Statement of Net Assets:

Table 1
Net Assets
(in millions)

	Governmental Activities		Business-Type Activities		Total Corporation	
	2011	2010	2011	2010	2011	2010
Current assets	$14.9	$12.6	$ 369.6	$ 446.3	$ 384.5	$ 458.9
Non-current assets			2,189.7	2,291.4	2,189.7	2,291.4
Total Assets	14.9	12.6	2,559.3	2,737.7	2,574.2	2,750.3
Current liabilities	(2.5)	(3.0)	(192.6)	(190.1)	(195.1)	(193.1)
Non-current liabilities			(2,041.1)	(2,222.6)	(2,041.1)	(2,222.6)
Total Liabilities	(2.5)	(3.0)	(2,233.7)	(2,412.7)	(2,236.2)	(2,415.7)
Net assets:						
Invested in capital assets			4.3	4.5	4.3	4.5
Restricted	12.4	9.6	268.3	271.3	280.7	280.9
Unrestricted			53.0	49.2	53.0	49.2
Total Net Assets	$ 12.4	$ 9.6	$ 325.6	$ 325.0	$ 338.0	$ 334.6

Net assets of the Corporation's governmental activities increased from $9.6 million to $12.4 million. All assets of the Corporation's governmental activities are restricted for program purposes. Assets subject to immediate disbursement are classified as current liabilities and remaining assets are classified as restricted net assets (fund balances). The increase in net assets indicates that revenues received from other governments exceeded program grants, operating expenditures and transfers.

The net assets of the Corporation's business-type activities increased from $325.0 million to $325.6 million as a result of a $6.7 million increase in the market value of investments and MBS's and a $.6 million increase in the fair market value of swaps, both of which were offset by a $6.7 million loss from general operations. The Corporation's primary business-type activity is the bond-financed loan program. Bond proceeds are used to fund qualifying single-family residential mortgage loans as well as to originate and fund mortgage loans to developers of multi-family housing. The Corporation's objective is to achieve a year-over-year increase in business-type net assets exclusive of the adjustment to all investments held by the Corporation to their fair market value, resulting in an increase or decrease to business-type revenue and business-type cash and investments. The change in net assets is more fully described under "Proprietary Funds."

Continued

Comparisons in the changes in net assets between fiscal years 2010 and 2011 provide additional insight on the Corporation's operating performance. Table 2 condenses Statement of Activities financial information.

Table 2
Changes in Net Assets
(in millions)

	Governmental Activities		Business-Type Activities		Total Corporation	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Revenues						
Operating revenues	$ 13.2	$ 10.8	$ 127.7	$174.5	$140.9	$ 185.3
Operating grants	281.0	204.2			281.0	204.2
Total Revenues	294.2	215.0	127.7	174.5	421.9	389.5
Program Expenses						
Rental subsidy administration	146.5	140.3			146.5	140.3
Weatherization program	31.7	21.1			31.7	21.1
HOME program	40.5	19.3			40.5	19.3
Treasury Housing Credit program	43.6	11.9			43.6	11.9
Other federal and state programs	25.7	19.1			25.7	19.1
Administrative			11.3	13.2	11.3	13.2
Bond financed loan programs			110.0	113.0	110.0	113.0
Loan servicing			6.6	6.3	6.6	6.3
Other loan and housing Credit programs			2.5	3.2	2.5	3.2
Total Program Expenses	288.0	211.7	130.4	135.7	418.4	347.4
Excess before transfers	6.2	3.3	(2.7)	38.8	3.5	42.1
Transfers	(3.3)	(3.1)	3.3	3.1		
Increase in Net Assets	$ 2.9	$ .2	$ .6	$ 41.9	$ 3.5	$ 42.1

Continued

Total revenues for governmental activities were $294.2 million during fiscal year 2011, a $79.2 million increase from the $215.0 million in revenues in fiscal year 2010. The increase was due to a $76.8 million increase in operating grants and a $2.4 million increase in charges for services. Operating grants include federal funding for Section 8 ($141.0 million), Treasury Housing Credit ($43.6 million), HOME ($39.4 million), and Weatherization ($30.7 million), which represent 91% of total operating grant revenues.

The Corporation receives fees or charges for services for federal program administration. These revenues increased from $10.8 million in 2010 to $13.2 million during fiscal year 2011. A substantial amount of the fees earned in excess of operating costs are transferred from the governmental funds to the proprietary funds of the Corporation. During 2011, $13.2 million in fee revenue was received and $9.9 million in operating expenses were incurred thereby enabling a $3.3 million transfer, or a $.2 million increase from the $3.1 million similarly derived and transferred in 2010.

Program expenses for governmental activities increased during 2011 by $76.4 million. Program expenses for governmental activities during 2011 were $288 million, comprised of grants of $278.2 million and operating expenses of $9.9 million, as discussed above. In fiscal 2010, total program expenses were $211.7 million with grants of $203.8 million and operating expenses of $7.9 million.

Total revenues for business-type activities were $127.7 million during fiscal year 2011, a $46.8 million decrease from the $174.5 million of revenues in fiscal year 2010. For fiscal 2011, there was a $6.7 million increase in the market value of investments versus a $42.8 million increase for 2010. This $36.1 million negative variance between 2010 and 2011 is the significant cause for the decrease in revenues. Interest earnings from loans, mortgage-backed securities and other investments decreased $9.3 million, other income decreased $.8 million and the change in the fair market value of swaps decreased $.6 million.

Program expenses for business-type activities decreased $5.3 million from $135.7 million in 2010 to $130.4 million in 2011. Bond financed loan program expenses decreased by $3.0 million, administrative expenses, or expenses not directly attributable to programs, decreased by $1.9 million, loan servicing expenses increased by $.3 million and other loan program expenses decreased by $.7 million. The line items related to these expenses are presented in detail in Table 2.

The deficit of revenues under expenses for business-type activities was $2.7 million in 2011 compared to $38.8 million excess of revenues over expenses in 2010, a decrease of $42.5 million from 2010. As described above and in additional detail under "Proprietary Funds," the decrease is due to a $46.8 million decrease in revenues and a $5.3 million decrease in expenses. Transfers-in were $3.3 million in 2011 compared to $3.1 million in 2010, an increase of $.2 million. Such changes in revenues, expenses and transfers resulted in an increase in business-type net assets of $.6 million.

Continued

Fund Financial Statements

The following section provides a discussion and analysis of the Corporation's fund financial statements.

Governmental Funds – Pages 18 and 19

Each of the columns presented in the governmental funds financial statements represent an independent program operated by the Corporation. A description of each program can be found under Note A of the "Notes to the Financial Statements." Other Housing Funds include several independent programs, each of which does not meet the criteria for separate financial reporting.

The current assets of each governmental fund are held pending disbursement for program purposes. Most program disbursements are in the form of a grant or subsidy to program recipients. However, certain disbursements under the Affordable Housing Trust Fund, the HOME Program and the Treasury Housing Credit program are in the form of loans. Because of the extended loan terms, minimal interest rates and the credit risks associated with these loans, loan loss provisions have been established at 100%. As of June 30, 2011, the Corporation retained $14.9 million for program purposes and had $2.5 million classified as program advances resulting in a total of $12.4 million classified as restricted fund balances.

During fiscal year 2011, the Affordable Housing Trust Fund had revenues less than expended funds of $1.1 million, thereby decreasing the program's fund balances. Rental Assistance programs operated in such a manner that most revenues were either expended for the programs, $141.0 million, or transferred to proprietary funds, $3.3 million. Similarly, all HOME program revenues, $40.6 million, were expensed in an equal amount in 2011, as were Treasury Housing Credit revenues of $43.6 million, Weatherization revenues of $31.7 million and Hardest Hit funds of $4.2 million. Finally, revenues of the Other Housing Funds exceeded expenses by $1.5 million, thereby increasing the fund balance of Other Housing Funds.

Proprietary Funds – Pages 20 through 24

The significant portion of the Corporation's financial resources and activities is reported in the proprietary fund financial statements. Proprietary funds account for over 99% of Corporate assets, 90% of non-grant revenues, 93% of operating expenses and 100% of the Corporation's net worth.

Proprietary funds are organized in accordance with the restrictions described under Note B of the "Notes to the Financial Statements." Our discussion and analysis of proprietary funds will focus on the combined totals of the four separate funds. Primary attention, however, will be given to the financial condition and performance of the Housing Revenue Bond Funds which comprise 95% of the total assets, 90% of total revenues, and 80% of the net assets of proprietary fund combined totals.

Continued

The Corporation's primary business-type activity involves the issuance of mortgage revenue bonds and the use of bond proceeds to fund qualifying residential single-family and multi-family mortgage loans. The federal tax code, with certain exceptions, limits the allowable spread between the Corporation's cost of funds and the interest rate charged to customers to 1.125%. This spread allows the Corporation to cover bond interest, operating costs and to earn a profit. Furthermore, the yield on investment securities cannot exceed the bond yield of the tax-exempt bond issuance with any excess earnings subject to rebate to the federal treasury.

The ultimate purpose of the program is to convert bond proceeds into qualifying mortgage loans. However, in the operation of the program the Corporation maintains a significant amount of cash and investment securities as follows:

- Debt Service Reserve Fund maintains deposits to provide additional security and a source of liquidity to bond investors. Deposits must be maintained at the level required under the Corporation's bond indenture. At June 30, 2011, the Debt Service Reserve requirement was $160.5 million and the amount on deposit was $191.0 million. (The Housing Revenue Bond Resolution ("Resolution") requires that the amounts on deposit be valued at the lesser of par or fair market value and inclusive of any interest or gain realized to the valuation date.)

- Bond Proceeds Fund maintains undisbursed monies being held pending the purchase of mortgage loans.

- Debt Service Fund maintains interest income earned from mortgages and investments and regularly scheduled payments of loan principal pending the semi-annual payment of debt service to investors.

- Recoveries of Principal Fund and Redemption Fund maintain monies received from mortgagors resulting from the payoff of mortgage loans pending either disbursement into newly originated mortgage loans or the early retirement of bonds.

Refer to the "Supplemental Combining Information – Housing Revenue Bond Funds" for additional detail.

Continued

Condensed financial information from the Statement of Net Assets follows in Table 3.

Table 3
Proprietary Funds
Asset, Liabilities and Net Asset Changes
(in millions)

	2011	2010	Change
Program-Purpose Assets			
Mortgage loans	$ 1,130.6	$ 1,398.4	$ (267.8)
Mortgage-backed securities	952.2	794.0	158.2
Housing construction loans	3.3	3.4	(.1)
Other loans	11.6	11.2	.4
Total Program-Purpose Assets	2,097.7	2,207.0	(109.3)
Cash and Investments	400.5	465.1	(64.6)
Other assets	61.1	65.6	(4.5)
Total Assets	2,559.3	2,737.7	(178.4)
Bonds payable	(2,100.7)	(2,240.5)	139.8
Other liabilities	(133.0)	(172.2)	39.2
Total Liabilities	(2,233.7)	(2,412.7)	179.0
Net Assets	$ 325.6	$ 325.0	$ .6

Mortgage loans, mortgaged-backed securities, housing construction loans and other loans decreased by $109.3 million or 5% during 2011. Total program-purpose assets at June 30, 2011 were $2.10 billion.

The decrease was the result of mortgage loan fundings of $128.9 million, mortgage loan repayments of $86.3 million, conversion of mortgage loans to mortgage-backed securities of $307.3 million, a loan loss provision increase of $2.3 million, an accrued mortgage loan interest decrease of $.8 million, plus net increases in mortgage-backed securities, housing construction loans and other loans of $158.5 million.

Continued

During 2011, the Corporation issued short- and long-term bonds and incurred other short-term debt (lines of credit) in the amount of $263.0 million. This includes Housing Revenue Bonds issued of $226.0 million, plus bond premiums received of $1.1 million. Total bond and line-of-credit principal repayments were $437.9 million and the change in net unamortized bond premium was $.4 million. As a result of this activity, bonds outstanding decreased $139.8 million and short-term debt decreased by $35.9 million. The Corporation's Housing Revenue Bond Fund has continuously maintained a AAA rating from Standard & Poor's Ratings Service since 1991 and a Aaa rating from Moody's Investors Service since 1993. Subsequent to June 30, 2011 the Corporation received notice from both of these rating agencies that although these ratings remain in place, the agencies have placed the Corporation on credit watch.

The following Table 4 provides condensed financial information from the Statement of Revenues, Expenses and Changes in Net Assets.

Table 4
Proprietary Funds
Revenues and Expense Changes
(in millions)

	2011	2010	Change
Interest income--loans	$ 61.5	$ 86.9	$ (25.4)
Interest income--mortgage-backed securities	45.2	28.3	16.9
Interest income--investment securities	1.9	2.7	(0.8)
Total interest income	108.6	117.9	(9.3)
Interest expense	(93.8)	(97.4)	3.6
Net Interest	14.8	20.5	(5.7)
Increase in fair value of marketable securities	6.7	42.8	(36.1)
Increase (decrease) in fair market value of swaps	0.6	1.2	(0.6)
Provision for loan losses	(2.6)	(1.7)	(0.9)
Net Investment Income	19.5	62.8	(43.3)
Other income	11.7	12.6	(0.9)
General and administrative expenses	(18.2)	(19.2)	1.0
Other expenses	(15.7)	(17.4)	1.7
Interfund transfers	3.3	3.1	0.2
Changes in Net Assets	$ 0.6	$ 41.9	$ (41.3)

Continued

Net assets increased by $.6 million in 2011, a $41.3 million decrease from the $41.9 million increase in 2010. The decrease from 2010 is attributable to several factors. One difference relates to the fair value of investment securities which increased by $6.7 million in 2011 as compared to a $42.8 million increase in 2010, an overall decrease of $36.1 million. Generally, investment securities the Corporation holds, specifically its mortgage-backed securities, will increase in value as market interest rates decline.

Net interest, the difference between interest income and interest expense, decreased by $5.7 million from $20.5 million in 2010 to $14.8 million in 2011. Other (fee) income decreased $.9 million from $12.6 million in 2010 to $11.7 million in 2011. The change in fair market value of swaps decreased from a positive $1.2 million in 2010 to a positive $.6 million in 2011, a decrease of $.6 million. The provision for loan losses increased by $.9 million, from $1.7 million in 2010 to $2.6 million in 2011.

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs and servicing release premiums, decreased by $1.7 million from $17.4 million in 2010 to $15.7 million in 2011. General and administrative expenses decreased by $1.0 million from $19.2 million in 2010 to $18.2 million in 2011.

Finally, changes in net assets were impacted by interfund transfers of $3.3 million, an increase of $.2 million from the $3.1 million transferred in 2010. (See "Governmental Funds" for additional information on interfund transfers.)

Financial Outlook

The Corporation's future financial position and performance is dependent on a number of economic, regulatory and financial conditions along with management's consideration of and response to those conditions. The Corporation experienced mortgage loan production of $129 million in 2011 and was able to issue $226 million of Housing Revenue Bonds. The Corporation's credit strength continued to be received favorably by both the retail and institutional investment community. This strong demand resulted in lower yields for the Corporation's bonds. The Corporation was able to achieve its full allowable tax-exempt spread of 1.125% on its loan production on the $136 million bonds sold to the public.

Given current market conditions, it is uncertain whether or not the Corporation will be able to issue Housing Revenue Bonds during fiscal 2012. The Corporation intends on funding single family loan production through its recently implemented secondary market mortgage purchase program. Through this program, the Corporation will access the To-Be-Announced ("TBA") market. The TBA market facilitates the forward-trading of MBS's backed by government-sponsored entities such as GNMA. This program will allow the Corporation to fund loans at competitive market rates with the intent of selling the mortgages funded at a premium.

Continued

During fiscal year 2011, the Corporation continued to participate in the New Issue Bond Purchase Program ("NIBP"). The NIBP is a joint initiative with The U.S. Department of Treasury, Department of Housing and Urban Development, Federal Housing Finance Agency, Fannie Mae and Freddie Mac to maintain the viability of Housing Finance Agency ("HFA") lending programs and infrastructure. As part of the NIBP, the Corporation is able to receive $180 million in long-term funding at an interest rate equal to the 10 year U.S. Treasury yield plus 60 basis points. With the Corporation's AAA rating, it received the most favorable pricing offered within the program. The Corporation drew $90 million in NIBP funds during fiscal year 2011 and has $30 million of available NIBP funds to draw by December 31, 2011, the scheduled end date of the program..

The Corporation continued to mitigate the analytical financial stress of holding whole loans by pooling them into MBS's. The Corporation previously pooled whole conventional loans with Federal National Mortgage Association ("FNMA") pursuant to a negotiated affinity agreement. Beginning in fiscal year 2010 and continuing in fiscal year 2011, the Corporation pooled whole loans with the Government National Mortgage Association ("GNMA"). All of the pooled loans are underwritten to the Corporation's standards and are serviced by the Corporation. The Corporation pays a guarantee fee to GNMA which provides for no recourse to the Corporation in the event of loan default. The loans pooled into GNMA MBS's are full recourse to GNMA and principal and interest is guaranteed. The Corporation pooled $307.3 million in GNMA MBS's during fiscal year 2011. As of June 30, 2011 the corporation held FNMA MBS pools with a market value of $373.9 million and GNMA MBS pools with a market value of $578.3 million. The primary risk to the Corporation, in the absence of the guarantees, would be the increased responsibility regarding loans in default and potential increased financial stress during certain rating agency analyses.

As of June 30, 2011, the total amount of variable rate debt to total debt was $218 million of the $2.10 billion total long-term debt portfolio, or 10.4%. The Corporation mitigates interest rate risk with interest rate swaps on $178.9 million of its variable rate debt. Only one swap, 2006 Series W, has been deemed ineffective under GASB 53. The Corporation continues to manage its balance sheet with redemption and bond structure strategies.

Asset default poses a smaller risk to the Corporation because of conservative bond covenants in effect. All investment securities are either instruments of the federal government or federal agencies or repurchase agreements fully collateralized by federal government or agency obligations. Further, the substantial portions of mortgage loans held in the portfolio are insured by federal agencies. Mortgage loans held in GNMA MBS's are guaranteed as to principal and interest by GNMA while $252.1 million of the book value of the FNMA MBS's are fully guaranteed by FNMA. Additional information on the Corporation's allowance for loan losses can be found in Notes D, E and F in the "Notes to Financial Statements".

Continued

The Corporation's governmental activities are made possible through intergovernmental revenues made available from the federal government and the Commonwealth of Kentucky. The Corporation's ability to expand or continue these programs is subject to the statutory authority and the budget appropriations of those governments.

The Corporation continues to face a difficult economic environment including, but not limited to, rising unemployment resulting in increased delinquencies and foreclosures. During this time, the Commonwealth of Kentucky has experienced historic levels of unemployment which has contributed to a significant increase in delinquency and foreclosure levels on the Corporation's single-family mortgage loan portfolio. While this continues to be a problem, the Corporation continues to proactively address this issue by working with its borrowers through various loss mitigation techniques and other efforts designed to address these issues. The Corporation implemented new policies to address the increasing delinquencies while maintaining the financial strength and integrity of the Resolution.

In spite of the above unanticipated challenges, the Corporation was able to continue in all of its lines of business and, as a result of its significant wealth, had the necessary resources and liquidity to cover unanticipated costs. The HFA industry faces increased scrutiny from the rating agencies. The Corporation has maintained its triple-A ratings from Moody's and Standard & Poor's but was placed on credit watch by these entities in August 2011.

Recent market conditions have also created a unique opportunity for the Corporation related to its MBS holdings, with market values exceeding book values by approximately $63 million at June 30, 2011. In August 2011, the Board of Directors of the Corporation authorized the sale of up to $140 million aggregate principal amount of MBS's pledged as security under the Corporation's Resolution. On or about September 2, 2011, the Corporation sold approximately $133.9 million of its MBS investments for proceeds of approximately $148.4 million. The proceeds of the sale of such MBS's constitutes "Recoveries of Principal" and, as required by the Resolution, will be applied to redeem outstanding bonds of the Corporation. It is expected that such redemptions will occur between October 10, 2011 and November 1, 2011.

The Corporation, in an effort to better serve Kentuckians, has allocated $50 million of its bond authority to fund a Mortgage Credit Certificate ("MCC") program. This program allows a borrower to take a federal tax credit equal to 25% of the annual mortgage interest the borrower pays, up to a maximum annual credit of $2,000. Similar to the Corporation's mortgage revenue bond loan program, borrowers must meet certain eligibility requirements, such as maximum income and purchase price levels. The Corporation authorized a similar program in 2007.

The Corporation continues to serve the ongoing portion of the population who are looking to become first-time homebuyers with competitive rates, MCC's and down-payment assistance. As discussed previously, the Corporation will utilize its secondary market mortgage purchase program to fund single family loans. With continued aggressive balance sheet management and these additional product lines, management has positioned the Corporation for sustainability during this difficult economic environment.

Continued

Contacting the Corporation's Financial Management

This report is designed to provide our stakeholders with the information needed to understand the Corporation's financial condition and results of operations for the fiscal year ended June 30, 2011. Questions and inquiries may be directed to Richard L. McQuady, Chief Executive Officer at Kentucky Housing Corporation, 1231 Louisville Road, Frankfort, Kentucky 40601. Telephone: (502) 564-7630, x218, fax: (502) 564-7322, e-mail: rmcquady@kyhousing.org.

Corporation-Wide Statement of Net Assets

Kentucky Housing Corporation

June 30, 2011
(dollars in thousands)

ASSETS	Governmental Activities	Business-Type Activities	Combined Totals
Current Assets			
Cash and cash equivalents	$ 5,734	$ 63,768	$ 69,502
Investment securities	9,211	235,827	245,038
Mortgage-backed securities		22,865	22,865
Housing mortgage loans		33,080	33,080
Housing construction loans		3,341	3,341
Other loans		693	693
Accounts receivable and other assets	609	9,390	9,999
Interfund accounts	(671)	671	
Total Current Assets	14,883	369,635	384,518
Noncurrent Assets			
Investment securities		100,858	100,858
Mortgage-backed securities		929,334	929,334
Housing mortgage loans		1,097,529	1,097,529
Other loans		10,946	10,946
Unamortized debt issuance costs		14,373	14,373
Capital assets		4,332	4,332
Deferred servicing costs and other assets		19,888	19,888
Deferred outflow of resources - interest rate swaps		12,387	12,387
Total Noncurrent Assets		2,189,647	2,189,647
Total Assets	14,883	2,559,282	2,574,165
LIABILITIES			
Current Liabilities			
Lines of credit		4,090	4,090
Accounts payable and other liabilities		646	646
Accrued interest payable		46,279	46,279
Program advances	2,466		2,466
Escrows and project reserves		54,922	54,922
Revenue bonds, due within one year		86,635	86,635
Total Current Liabilities	2,466	192,572	195,038
Noncurrent Liabilities			
Revenue bonds, due after one year		2,014,050	2,014,050
Other noncurrent liabilities		13,183	13,183
Derivative instrument - interest rate swap		13,884	13,884
Total Noncurrent Liabilities		2,041,117	2,041,117
Total Liabilities	2,466	2,233,689	2,236,155
NET ASSETS			
Invested in capital assets		4,332	4,332
Restricted by			
Revenue bond indenture		261,021	261,021
Enabling legislation		7,239	7,239
Program requirements	12,417		12,417
Unrestricted		53,001	53,001
Total Net Assets	$ 12,417	$ 325,593	$ 338,010

Corporation-Wide Statement of Activities

Kentucky Housing Corporation

Year Ended June 30, 2011
(dollars in thousands)

	Direct Expenses		Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
Functions/Activities	**Grants**	**Operating**	**Charges for Services**	**Operating Grants**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental Activities							
Rental subsidy administration	$141,004	$ 5,466	$ 8,806	$ 141,004	$ 3,340		$ 3,340
HOME program	39,394	1,164	1,164	39,394			
Treasury Housing Credit	43,575			43,575			
Weatherization	30,733	977	977	30,733			
Other federal and state housing programs	23,444	2,279	2,279	26,310	2,866		2,866
Total Governmental Activities	278,150	9,886	13,226	281,016	6,206		6,206
Business-Type Activities							
Administrative	2,435	8,856	829			$ (10,462)	(10,462)
Bond financed loan programs		109,956	114,855			4,899	4,899
Loan servicing		6,572	8,144			1,572	1,572
Other loan and housing credit programs		2,554	3,832			1,278	1,278
Total Business-Type Activities	2,435	127,938	127,660			(2,713)	(2,713)
Total Activities	$280,585	$ 137,824	$ 140,886	$ 281,016	6,206	(2,713)	3,493
Transfers					(3,340)	3,340	
Change in Net Assets					2,866	627	3,493
Net Assets, Beginning of Year					9,551	324,966	334,517
Net Assets, End of Year					$ 12,417	$ 325,593	$ 338,010

See Notes to Financial Statements

Balance Sheet – Governmental Funds

Kentucky Housing Corporation

June 30, 2011
(dollars in thousands)

ASSETS	Affordable Housing Trust Fund	HOME Program	Treasury Housing Credit	Weatherization Assistance	Rental Assistance	Unemployment Bridge	Other Housing Funds	Combined Totals
Current Assets								
Cash and cash equivalents	$ 1,096	$ 105		$ 1	$ 1,992	$ 101	$ 2,439	$ 5,734
Investment securities	6,376					2,799	36	9,211
Accounts receivable and other assets		112		172	213		112	609
Interfund accounts		(112)		(380)	(69)	2	(112)	(671)
Total Current Assets	7,472	105		(207)	2,136	2,902	2,475	14,883
Noncurrent Assets								
Program loans	6,736	98,831	$ 55,447				17	161,031
Less loan loss provision	(6,736)	(98,831)	(55,447)				(17)	(161,031)
Total Noncurrent Assets								
Total Assets	$ 7,472	$ 105	$	$ (207)	$ 2,136	$ 2,902	$ 2,475	$ 14,883
LIABILITIES								
Current Liabilities								
Program advances		$ 105		$ (207)	$ 2,136	$ 380	$ 52	$ 2,466
FUND BALANCES								
Restricted by program requirements	$ 7,472					2,522	2,423	12,417
Total Liabilities and Fund Balances	$ 7,472	$ 105	$	$ (207)	$ 2,136	$ 2,902	$ 2,475	$ 14,883

See Notes to Financial Statements

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Kentucky Housing Corporation

Year Ended June 30, 2011
(dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Treasury Housing Credit	Weatherization Assistance	Rental Assistance	Unemployment Bridge	Other Housing Funds	Combined Totals
Revenues								
Federal and state administrative fees		$ 1,164		$ 977	$ 8,806	$ 862	$ 1,417	$ 13,226
Pass-through grant revenues	$ 5,702	39,394	$ 43,575	30,733	141,004	3,358	17,250	281,016
Total Revenues	5,702	40,558	43,575	31,710	149,810	4,220	18,667	294,242
Expenditures								
General and administrative		1,164		977	5,466	862	1,417	9,886
Pass-through grant expenditures	6,810	39,394	43,575	30,733	141,004	836	15,798	278,150
Total Expenditures	6,810	40,558	43,575	31,710	146,470	1,698	17,215	288,036
Revenues in Excess of/(Less Than) Expenditures	(1,108)				3,340	2,522	1,452	6,206
Interfund Transfers					(3,340)			(3,340)
Net Change in Fund Balances	(1,108)					2,522	1,452	2,866
Fund Balances, Beginning of Year	8,580						971	9,551
Fund Balances, End of Year	$ 7,472	$	$	$	$	$ 2,522	$ 2,423	$ 12,417

See Notes to Financial Statements

Statement of Net Assets – Proprietary Funds

Kentucky Housing Corporation

June 30, 2011
(dollars in thousands)

ASSETS	**General Funds**	**Housing Revenue Bond Funds**	**Housing Development Fund**	**Combined Totals**
Current Assets				
Cash and cash equivalents	$ 60,166	$ 2,179	$ 1,423	$ 63,768
Investment securities	2,988	232,275	564	235,827
Mortgage-backed securities		22,865		22,865
Housing mortgage loans	2,019	31,061		33,080
Housing construction loans	589		2,752	3,341
Other loans	693			693
Accounts receivable and other assets	8,778	612		9,390
Interfund accounts	(1,739)	(90)	2,500	671
Total Current Assets	73,494	288,902	7,239	369,635
Noncurrent Assets				
Investment securities		100,858		100,858
Mortgage-backed securities	78	929,256		929,334
Housing mortgage loans	41,259	1,056,270		1,097,529
Other loans	10,946			10,946
Unamortized debt issuance costs		14,373		14,373
Capital assets	4,332			4,332
Deferred servicing costs and other assets	30	19,858		19,888
Deferred outfow of resources - interest rate swaps		12,387		12,387
Total Noncurrent Assets	56,645	2,133,002		2,189,647
Total Assets	130,139	2,421,904	7,239	2,559,282

See Notes to Financial Statements

LIABILITIES	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Current Liabilities				
Lines of credit	$ 4,090			$ 4,090
Accounts payable and other liabilities	611	$ 35		646
Accrued interest payable		46,279		46,279
Escrows and project reserves	54,922			54,922
Revenue bonds, due within one year		86,635		86,635
Total Current Liabilities	59,623	132,949		192,572
Noncurrent Liabilities				
Revenue bonds, due after one year		2,014,050		2,014,050
Other noncurrent liabilities	13,183			13,183
Derivative instrument - interest rate swap		13,884		13,884
Total Noncurrent Liabilities	13,183	2,027,934		2,041,117
Total Liabilities	72,806	2,160,883		2,233,689
NET ASSETS				
Invested in capital assets	4,332			4,332
Restricted by				
Revenue bond indenture		261,021		261,021
Enabling legislation			$ 7,239	7,239
Unrestricted	53,001			53,001
Total Net Assets	$ 57,333	$ 261,021	$ 7,239	$ 325,593

See Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds

Kentucky Housing Corporation

Year Ended June 30, 2011
(dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Operating Revenues				
Interest and fee income				
Housing mortgage and construction loans	$ 1,969	$ 59,460	$ 80	$ 61,509
Mortgage-backed securities		45,236		45,236
Marketable securities	2	1,899		1,901
Net increase in fair value of marketable securities		6,693		6,693
Net increase in fair market value of swaps		599		599
Fees, charges and other income	11,306	415		11,721
Total Operating Revenues	13,277	114,302	80	127,659
Operating Expenses				
Interest on revenue bonds and notes payable	173	93,662		93,835
Provision for losses on loans	741	1,876	17	2,634
General and administrative	18,230			18,230
Housing assistance grants	2,435			2,435
Mortgage loan servicers' fees	6	3,988		3,994
Amortization of lender compensation	10	7,049		7,059
Amortization of debt issuance costs		1,208		1,208
Early extinguishment of debt		977		977
Total Operating Expenses	21,595	108,760	17	130,372
Operating Income (Loss)	(8,318)	5,542	63	(2,713)
Interfund Transfers	11,937	(8,597)		3,340
Change in Net Assets	3,619	(3,055)	63	627
Net Assets, Beginning of Year	53,714	264,076	7,176	324,966
Net Assets, End of Year	$57,333	$ 261,021	$ 7,239	$ 325,593

See Notes to Financial Statements

Kentucky Housing Corporation

Year Ended June 30, 2011
(dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 1,900	$ 59,460	$ 82	$ 61,442
Fees, charges and other income	11,950			11,950
Personnel costs	(15,001)			(15,001)
Operating expenses	(5,593)	(6,953)		(12,546)
Housing assistance grants	(2,435)			(2,435)
Fundings of housing mortgage loans	(7,113)	(121,726)		(128,839)
Repayments on housing mortgage loans	8,390	115,736		124,126
Conversion of mortgage loans to mortgage-backed securities		269,497		269,497
Net changes in housing construction loans	202		(174)	28
Other, net	32,190	(34,580)	(2,500)	(4,890)
Net Cash Provided By (Used In) Operating Activities	24,490	281,434	(2,592)	303,332
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit and issuance of revenue bonds	35,850	227,145		262,995
Payments for debt issuance costs		(1,518)		(1,518)
Principal payments on lines of credit and revenue bonds	(71,700)	(366,165)		(437,865)
Interest payments on revenue bonds and lines of credit	(173)	(96,061)		(96,234)
Changes in escrows and project reserves	5,555			5,555
Interfund transfers	11,937	(8,597)		3,340
Net Cash Provided By (Used In) Noncapital Financing Activities	(18,531)	(245,196)		(263,727)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(381)			(381)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(14,871)	(1,960,094)		(1,974,965)
Conversion of mortgage loans to mortgage-backed securities		(269,497)		(269,497)
Sales of investments and mortgage-backed securities	14,309	2,144,676		2,158,985
Interest received on investments and mortgage-backed securities	2	47,037		47,039
Net Cash Provided By (Used In) Investing Activities	(560)	(37,878)	-	(38,438)
Net Increase (Decrease) in Cash and Cash Equivalents	5,018	(1,640)	(2,592)	786
Cash and Cash Equivalents, Beginning of Year	55,148	3,819	4,015	62,982
Cash and Cash Equivalents, End of Year	$ 60,166	$ 2,179	$ 1,423	$ 63,768

Kentucky Housing Corporation

Year Ended June 30, 2011
(dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	$ (8,318)	$ 5,542	$ 63	$ (2,713)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Amortization of deferred costs	10	8,257		8,267
Other amortization	(79)			(79)
Provision for losses on loans	741	1,876	17	2,634
Depreciation expense	502			502
Interest expense on revenue bonds and lines of credit	173	93,662		93,835
Interest income on mortgage-backed securities		(45,236)		(45,236)
Interest income on marketable securities	(2)	(1,899)		(1,901)
Net (increase) decrease in fair value of marketable securities		(6,693)		(6,693)
Net (increase) decrease in fair value of swaps		(599)		(599)
Early extinguishment of debt		977		977
Other income		(415)		(415)
Changes in operating assets and liabilities				
Fundings of housing mortgage loans	(7,113)	(121,726)		(128,839)
Repayments on housing mortgage loans	8,390	115,736		124,126
Conversion of mortgage loans to mortgage backed securities		269,497		269,497
Housing construction loans	202		(174)	28
Other, net	29,984	(37,545)	(2,498)	(10,059)
Net Cash Provided By (Used In) Operating Activities	$ 24,490	$ 281,434	$ (2,592)	$ 303,332

See Notes to Financial Statements

Note A--Compliance with Enabling Legislation and Bond Resolutions

The Kentucky Housing Corporation (the "Corporation") was established in 1972 by the Kentucky General Assembly under the provisions of the Kentucky Housing Corporation Act (the "Act"). The Act, as amended, authorizes the Corporation to issue bonds and notes, the cumulative outstanding indebtedness of which does not exceed $5,000,000. The Act and the Bond Resolutions adopted by the Corporation contain provisions establishing funds and accounts for the segregation and restriction of assets and also restrict the use of the proceeds of bonds as well as other funds received. Further, the Act and the Bond Resolutions authorize the Corporation to invest in obligations of the United States, the Commonwealth of Kentucky (the "Commonwealth"), or their agencies or instrumentalities.

The Corporation primarily makes first mortgage loans to finance single-family and multi-family housing units within Kentucky. Loans are made to first-time home buyers meeting certain low-to-moderate income guidelines. Substantially all assets of the Corporation are held by banks as trustees and are pledged as collateral for the Corporation's bonds.

The Corporation also administers various programs for federal and state agencies. Funds held for these programs are restricted as to use by statutes, contracts or other agreements.

Note B--Summary of Significant Accounting Policies

Basis of Presentation--The Corporation's basic financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and related statements, and are comprised of three components: 1) Corporation-Wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Corporation-Wide financial statements are comprised of a statement of net assets and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements reflect all of the assets, liabilities, revenues, expenses, gains and losses of the Corporation's governmental and business-type activities. The Corporation's governmental activities reflect the administration of the various programs for the Commonwealth and the federal government. The Corporation's business-type activities include the Corporation's single and multi-family loan programs and other lender services.

The Corporation's fund financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities, which provide that accounting systems be organized by funds to account for specific activities consistent with legal and operating requirements. The Corporation's governmental funds financial statements are prepared utilizing the current financial economic resources measurement focus and the modified accrual basis of accounting, and include the activities of administering rental subsidy and other federal and state housing programs for the Commonwealth and U.S. Department of Housing and Urban Development ("HUD"). Financial activities operated similarly to private business

Continued

Note B--Summary of Significant Accounting Policies--Continued

enterprises and financed through fees and charges assessed primarily to users of the Corporation's loan and other lender services are presented as proprietary funds.

The Corporation follows all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions, issued on or before November 30, 1989 for its proprietary fund, unless those pronouncements conflict with or contradict GASB pronouncements.

The Corporation is a component unit of the Commonwealth and, as such, its financial statements are included in the Commonwealth's Comprehensive Annual Financial Report.

The Corporation's governmental funds (special revenue funds) are:

Affordable Housing Trust Fund: This fund accounts for resources made available in the form of grants or loans to local governments, nonprofits and regional or statewide housing assistance organizations to provide housing to very low-income Kentucky residents with critical housing needs. The fund's resources are primarily provided by a portion of the fees received by county clerks for recording and indexing various documents. Such allocation of resources was approved by the Kentucky General Assembly in 2006.

HOME Program: This fund accounts for resources made available from the federal government through its Home Investment Partnerships Program ("HOME") to help local governments, nonprofits, private developers, community housing development organizations and individuals to provide safe, decent and affordable housing. Resources are made available to these entities and individuals through both grants and loans. Additional funds are also currently available through the Tax Credit Assistance Program ("TCAP"), which is a part of the American Recovery and Reinvestment Act ("ARRA"). TCAP provides funding for capital investment in Low Income Tax Credit projects and will be used to fill gaps caused by the collapse of the tax credit equity market, to assist stalled development projects, and to stimulate economic activity that would most notably take the form of job creation.

Treasury Housing Credit: This fund accounts for resources made available through the United States Department of Treasury ("Treasury") via Section 1602 of ARRA. Under Section 1602 the Treasury may issue cash assistance to state housing credit agencies in exchange for low income housing tax credits initially allocated in 2008 and 2009. These resources are secured by deferred, forgivable at maturity mortgage loans.

Weatherization Assistance: This fund accounts for resources made available from the federal government to assist eligible individuals in reducing their utility costs and improving the safety of their homes through energy efficiency measures. This program was previously administered in Kentucky by the Cabinet for Health and Family Services and was transferred to the Corporation in April 2009.

Continued

Note B--Summary of Significant Accounting Policies--Continued

Rental Assistance: This fund accounts for resources made available from the federal government to assist eligible individuals to rent decent, safe and affordable housing and to assure that property owners provide safe, affordable housing to recipients according to guidelines established by HUD.

Unemployment Bridge Program: This fund accounts for resources made available from the U.S. Treasury to assist Kentucky homeowners who have lost their jobs or suffered a reduction in income due to the economic downturn keep their homes. The proceeds are loaned to eligible homeowners and are secured by a five-year forgivable lien on the recipient's home. The fund is available to all lenders and all borrowers who meet the program criteria.

Other Housing Funds: This fund accounts for other minor housing assistance program funds made available through various federal and state resources.

The Corporation's proprietary funds are:

General Funds: These funds account for (1) activities related to the development and administration of corporate financial programs, (2) corporate-owned assets and (3) any activities and related revenues and expenses of the Corporation not applicable to the other funds. Net assets within the General Funds are generally unrestricted.

Housing Revenue Bond Funds: These funds account for the proceeds from the sale of Housing Revenue Bonds, the debt service requirements of the bond indebtedness, and mortgage loans made from bond proceeds to finance the purchase of single-family residential housing as well as the construction and long-term financing of multi-family residential housing. Net assets are restricted as to use by the terms of the Housing Revenue Bond Indentures.

Housing Development Fund: This fund accounts for construction loan proceeds for the production of both single-family and multi-family residential loans, as well as any investments made with proceeds currently not loaned. Net assets are restricted to use within the fund by the enabling legislation that created the fund.

Cash and Cash Equivalents--Cash consists of cash held by depository institutions and a trustee in the Corporation's name as well as amounts collected by loan servicers but not yet remitted to the trustee. The Corporation's cash and cash equivalents include money market funds and investments with original maturities of three months or less at the purchase date.

Investment and Mortgage-Backed Securities--Investment and mortgage-backed securities are stated at fair value based on quoted market prices. Unrealized gains (losses) due to changes in the fair value of investment and mortgage-backed securities are reported under the caption operating revenues in the Corporation's statement of revenues, expenses and changes in net assets.

Note B--Summary of Significant Accounting Policies--Continued

The Corporation securitizes a large portion of its conventionally insured housing mortgage loans by converting them into mortgage-backed securities through the Federal National Mortgage Association ("Fannie Mae"). The Corporation retains the servicing rights to the housing mortgage loans, and is subject to recourse provisions covering a portion of these housing mortgage loans (as described in Note D). In accordance with Financial Accounting Statements Board ("FASB") Statement No. 140,

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (as Amended), these securitization transactions do not qualify to be accounted for as sales of housing mortgage loans.

Loans and Allowance for Loan Losses--Housing mortgage loans, housing construction loans and other loans are stated at remaining principal balances, plus accrued interest, less allowance for loan losses.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, loan guarantees, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering the economic climate, business conditions, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Debt Issuance Costs and Bond Premiums and Discounts--Debt issuance costs and bond premiums and discounts on revenue bonds are deferred and amortized by the effective interest method over the term of the related debt. Revenue bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges.

Capital Assets--Capital assets are stated at cost less accumulated depreciation and are reported in the Business-Type Activities column in the Corporation-Wide Statement of Net Assets. Maintenance, repairs, and minor replacements are charged to expense as incurred; major improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in income. Depreciation is computed on the straight-line method over the following estimated useful lives of the assets.

Buildings	30 to 40 years
Equipment	3 to 10 years

Continued

Note B--Summary of Significant Accounting Policies--Continued

Debt Refundings--The Corporation accounts for debt refundings in accordance with GASB Statement No. 23*, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities.* This statement requires accounting gains and losses that result from debt refundings to be deferred and amortized over the life of the new debt or the retired debt, whichever is the shorter period, using the effective interest method. Such losses are the recognition of previously unamortized debt issuance costs. The Corporation had deferred losses of $753 at June 30, 2011, net of amortization of $196. Such deferred losses are reported with unamortized debt issuance costs on the statements of net assets.

Origination and Commitment Fees--Origination fees relating to permanently financed multi-family loans are deferred and amortized over the lives of the related loans as an adjustment to the yield, using a method that approximates the level yield method. Commitment fees charged to mortgage originators to reserve funds for permanently financed single-family loans are deferred and amortized ratably over the lives of the related loans.

Interfund Eliminations--Interfund receivables and payables arising primarily from allocations of administrative charges among the appropriate funds, are eliminated in the governmental and business-type activities columns of the Corporation-Wide statement of net assets. Net residual amounts due between governmental and business-type activities are reflected as receivable (payable) for internal balances.

Program Revenues--Program revenues in the Corporation-Wide statement of activities are reported in two categories including (1) charges for services and (2) program-specific operating grants and contributions. Charges for services include all revenues from loans, investments, servicing, financing, and program administration fees received in connection with administering the Corporation’s various loan programs. Program-specific operating grants and contributions include revenues from mandatory and voluntary nonexchange transactions with other governments and organizations that are restricted for use in a particular program. Program-specific operating grants and contributions include the interest earned on unspent grant proceeds.

Revenue and Expense Recognition of Proprietary Funds--The Corporation records all revenues derived from and related expenses incurred for loans, investments, servicing, financing and program administration as operating revenues and expenses since they are generated from the Corporation’s daily operations needed to carryout its statutory purpose.

Use of Estimates--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Estimates used in the preparation of the financial statements are based on various factors including the current interest rate environment and the general strength of Kentucky's economy. Changes in the overall interest rate environment can significantly affect the carrying value of the Corporation's investments and mortgage-backed securities. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the fair value of investment and mortgage-backed securities. Actual results could differ from those estimates.

(dollars in thousands)

Note B--Summary of Significant Accounting Policies--Continued

Fund Balance Classification Policies and Procedures-- Due to the fact that the Corporation's governmental funds account for intragovernmental revenues received under the terms of grant agreements and the related grant expenditures, all governmental fund balances are classified as restricted; therefore, the Corporation has not adopted a written policy regarding governmental fund balances.

Note C--Cash, Cash Equivalents and Investments

The Corporation has adopted GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, which requires disclosure of various investment-related risks, including custodial credit risk, interest rate risk, credit risk, concentration of credit risk, and foreign currency risk.

Kentucky Revised Statutes authorize the Corporation to invest in obligations guaranteed by the Commonwealth of Kentucky, the United States, or their agencies, provided however, that the return on such investments shall not violate any rulings of the Internal Revenue Service regarding the investment of the proceeds of any federally tax-exempt bond issue.

Cash and Cash Equivalents--At June 30, 2011, the carrying amount of the Corporation's cash and cash equivalents was $69,502 and the bank balance was $68,296. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $68,296 bank balance, $63,041 was covered by federal depository insurance and $5,255 was collateralized. For the funds collateralized by the financial institutions, the collateral equals or exceeds at least 102 percent (102%) of the value of the uninsured funds on deposit as required by the Corporation's investment policies, and the collateral is held by the financial institutions or a third party in the name of the Corporation.

Investment and Mortgage-Backed Securities--At June 30, 2011 the Corporation had the following investment and mortgage-backed securities:

Investment Type	**Fair Value**	**Effective Duration (in Years)**
U.S. Treasuries	$ 66,019	0.12
Mortgage-backed securities	952,199	2.51
U.S. government-sponsored enterprises	64,865	0.10
Certificates of deposit	1,081	0.00
Repurchase agreements	213,931	0.00
Total Investment and Mortgage-Backed Securities	1,298,095	
Less amounts shown as current assets	267,903	
Noncurrent Investment and Mortgage-Backed Securities	$ 1,030,192	
Portfolio effective duration		2.73

Continued

(dollars in thousands)

Note C--Cash, Cash Equivalents and Investments--Continued

Interest Rate Risk--In general, the Corporation's investment strategy is designed to match the life of the asset with the date of its related liability. With this strategy, investments would be expected to reach maturity with limited realized gains or losses. The Corporation's investment policy does allow trades of existing securities in circumstances where extension or contraction of maturity date or conversion from one allowable investment to another produces additional value through increased yield or capital gains.

The fair value of the Corporation's investments in mortgage-backed securities is highly sensitive to volatility in interest rates.

Credit Risk--The Corporation's investment policy defines the types of investments available to the Corporation. Investments, including the underlying securities for repurchase agreements, are held by the Corporation's trustee in the Corporation's name. The Corporation's investments are rated as follows by Moody's Investors Service at June 30, 2011:

Investment Type	Moody's Rating
Mortgage-backed securities	Aaa
U.S. Treasuries	Aaa
U.S. government-sponsored enterprises	Aaa
Certificates of deposit	Not rated
Repurchase agreements	Not rated

Custodial Credit Risk--For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Substantially all of the Corporation's investments are held in the name of the Corporation by a trustee.

Concentration of Credit Risk--The Corporation's investment policy places no limit on the amount the Corporation may invest in any one issuer. Investments in issuers exceeding five percent (5%) of the Corporation's portfolio at June 30, 2011 consist of the following:

Issuer	Fair Value	Percentage of Portfolio
GNMA	$ 578,305	45%
Fannie Mae	373,894	29%
Dreyfus	213,931	16%
U.S. Treasury	66,019	5%

Continued

(dollars in thousands)

Note C--Cash, Cash Equivalents and Investments--Continued

The pooled mortgages securitized as Fannie Mae investments with a fair value of $373,894 had a book value of $346,019 at June 30, 2011. Of the $346,019, $53,686 with full recourse to the Corporation with a five percent stop loss provision in place and $40,261 is with full recourse to the Corporation. The remaining balance of $252,072 is without recourse to the Corporation.

The pooled mortgages securities as GNMA investments with a fair value of $578,305 had a book value of $543,113 at June 30, 2011. This entire balance is without recourse to the Corporation.

Note D--Housing Mortgage Loans

At June 30, 2011, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$1,040,021
Multi-family (B)	45,473
Total Housing Revenue Bond Funds	1,085,494
General Housing Assistance Funds (C)	47,580
Total Principal	1,133,074
Add accrued interest receivable on loans	4,951
Total Principal and Accrued Interest	1,138,025
Less allowance for loan losses	7,416
Net Housing Mortgage Loans	1,130,609
Less amount shown as current assets	33,080
Noncurrent Housing Mortgage Loans	$1,097,529

(A) Includes $996,853 in federally insured or guaranteed loans, $23,016 of non-insured loans with initial loan-to-value ratios less than 90%, and $20,152 of loans covered by private mortgage insurance.

(B) Includes $39,978 in federally insured or guaranteed loans and $5,495 in non-insured loans.

(C) Includes $9,758 in federally insured or guaranteed loans, $18 in privately insured loans and $37,804 in non-insured loans.

(dollars in thousands)

Note E--Housing Construction Loans

Housing construction loans are primarily secured by first mortgages and are repayable at maturity or at the date of the sale of the property, whichever occurs first. Such loans are net of an allowance for loan losses of $928.

Note F--Other Loans

Other loans are primarily non-secured loans made to agencies, organizations, and individuals to construct or preserve affordable housing in Kentucky. Such loans are net of an allowance for loan losses of $2,290.

Note G--Loan Commitments

At June 30, 2011, the Corporation is committed to make housing mortgage loans and housing construction loans totaling $15,749 and $1,805, respectively.

Note H--Capital Assets

Major classes of capital assets at June 30, 2011 and activity during the year then ended are as follows:

Business-Type Activities	Balance July 1, 2010	Additions	Retirements and Dispositions	Balance June 30, 2011
Land	$ 1,089			$ 1,089
Buildings	5,036			5,036
Equipment	4,600	$ 381	$ 365	4,616
Less accumulated depreciation	(6,272)	(502)	(365)	(6,409)
Net Capital Assets	$ 4,453	$ (121)	$	$ 4,332

All depreciation expense was incurred for business-type activities and was included in the administrative function category in the Corporation-Wide statement of activities.

(dollars in thousands)

Note I--Lines of Credit

The Corporation's lines of credit at June 30, 2011 and activity during the year then ended are as follows:

Business-Type Activities	Balance July 1, 2010	Borrowings	Repayments and Dispositions	Balance June 30, 2011
Loan Warehousing Line of Credit	$ 39,940	$ 35,850	$ 71,700	$ 4,090
	$ 39,940	$ 35,850	$ 71,700	$ 4,090

The Loan Warehousing Line of Credit is used only for the purchase of mortgage loans. Borrowings are repaid upon the next issuance of Housing Revenue Bonds or the sale of loans into the secondary loan market. The line provides for borrowings up to $40,000, bears interest at the one-month LIBOR plus 75 basis points, and matures September 7, 2011. At June 30, 2011 this interest rate was .935%.

This Loan Warehousing Line of Credit was paid off on September 7, 2011 by a similar line of credit. This new line also provides for borrowings up to $40,000, bears interest at the one-month LIBOR plus 60 basis points and matures June 30, 2012.

(dollars in thousands)

Note J--Revenue Bonds

Revenue bonds at June 30, 2011 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2010	Issued	Repaid/ Retired	Balance June 30, 2011	Amount Due Within One Year
Housing Revenue Bonds:						
1997 Series D:						
2028-2031, 5.60%	$ 22,550	$ 3,675		$ 500	$ 3,175	
1998 Series A:						
2012-2018, 5.125%	10,845	2,330		955	1,375	470
1998 Series B:						
2012-2031, 5.00% to 5.30%	29,155	16,915			16,915	115
1998 Series D:						
2012-2039, 5.00% to 5.125%	8,205	3,385		100	3,285	105
1998 Series E:						
2014-2031, 4.75% to 5.00%	6,290	6,290			6,290	
1998 Series F:						
2019-2031, 5.00%	64,565	36,685		1,275	35,410	
1998 Series G:						
2012-2020, 5.55%	26,375	4,305		4,305		
1999 Series A:						
2014-2031, 5.00% to 5.20%	13,300	13,300			13,300	
1999 Series B:						
2012-2023, 4.85% to 5.20%	41,700	16,405		2,070	14,335	655
1999 Series E:						
2012-2020, 5.50%	17,965	3,230		260	2,970	435
1999 Series H:						
2015-2021, 5.85%	65,485	16,635		16,635		
2000 Series B:						
2021-2026, 6.05%	76,995	21,010		21,010		
2000 Series C:						
2028-2034, 5.95%	10,395	10,395		10,395		
2000 Series F:						
2021-2027, 5.85%	47,270	13,055		5,935	7,120	
2001 Series C:						
2022-2034, 5.55%	14,145	12,340		1,840	10,500	
2001 Series D:						
2012-2023, 4.85%	21,210	5,090		1,605	3,485	240
2001 Series E:						
2012-2021, variable	10,000	3,060		310	2,750	200
2001 Series F:						
2012-2032, 4.65% to 5.45%	50,000	16,325		2,700	13,625	670

Continued

(dollars in thousands)

Note J--Revenue Bonds--Continued

	Original Face Amount	Balance July 1, 2010	Issued	Repaid/ Retired	Balance June 30, 2011	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2002 Series A:						
2012-2031, 4.65% to 5.50%	55,000	23,490		2,595	20,895	1,130
2002 Series C:						
2012-2028, 4.30% to 5.375%	21,220	16,290		945	15,345	660
2002 Series D:						
2012-2033, 4.25% to 5.375%	50,000	39,965		2,260	37,705	945
2002 Series E:						
2012-2033, 3.70% to 5.05%	40,000	33,015		820	32,195	855
2002 Series F:						
2012-2034, 4.10% to 5.25%	30,000	24,170		1,135	23,035	755
2002 Series G:						
2015-2023, variable	5,000	5,000		5,000		
2003 Series A:						
2012-2034, 3.30% to 4.75%	35,000	30,485		3,340	27,145	785
2003 Series B:						
2012-2034, 3.35% to 4.80%	55,000	38,520		2,220	36,300	1,255
2003 Series C:						
2016-2025, 3.80% to 4.55%	16,720	16,595		870	15,725	
2003 Series D:						
2012-2034, 3.85% to 5.10%	45,000	30,880		2,615	28,265	955
2003 Series E:						
2017-2034, variable	5,000	5,000		5,000		
2003 Series F:						
2012-2034, 3.415% to 4.95%	155,140	90,940		10,005	80,935	9,775
2003 Series G:						
2012-2034, 3.70% to 5.00%	45,000	31,035		2,090	28,945	990
2004 Series A:						
2012-2018, 3.80% to 4.55%	17,175	15,580		2,555	13,025	1,970
2004 Series B:						
2018-2025, 5.00%	22,825	7,665		600	7,065	
2004 Series C:						
2026-2035, variable	10,000	10,000		10,000		
2004 Series D:						
2012-2035, 4.00% to 5.05%	55,000	39,510		3,695	35,815	1,270
2004 Series E:						
2030-2035, variable	5,000	5,000		5,000		
2004 Series F:						
2012-2035, 3.70% to 4.90%	45,000	33,405		2,835	30,570	945

Continued

(dollars in thousands)

Note J--Revenue Bonds--Continued

	Original Face Amount	Balance July 1, 2010	Issued	Repaid/ Retired	Balance June 30, 2011	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2004 Series G:						
2012-2017, 3.40% to 4.05%	10,225	6,510		895	5,615	935
2004 Series H:						
2017-2036, 4.00% to 4.90%	29,775	22,370		1,875	20,495	
2004 Series I:						
2018-2036, variable	5,000	5,000		5,000		
2005 Series A:						
2012-2032, 4.00% to 4.75%	18,670	15,700		975	14,725	
2005 Series B:						
2012-2033, variable	16,330	11,085		1,205	9,880	385
2005 Series C:						
2012-2031, 3.40% to 4.50%	22,215	18,455		1,010	17,445	1,070
2005 Series D:						
2019-2036, 4.60% to 5.00%	37,785	25,375		3,200	22,175	
2005 Series E:						
2012-2036, 3.60% to 5.00%	80,000	62,975		3,910	59,065	1,470
2005 Series F:						
2012-2016, 4.56% to 4.78%	20,000	12,065		2,315	9,750	2,330
2005 Series G:						
2016-2031, 4.20% to 5.00%	37,390	27,820		1,650	26,170	
2005 Series H:						
2017-2037, variable	21,925	21,925			21,925	
2005 Series I:						
2012-2017, 4.79% to 5.04%	22,940	14,580		2,600	11,980	2,540
2005 Series J:						
2014-2035, 3.70% to 4.70%	8,775	8,775		1,105	7,670	
2005 Series K:						
2017-2037, 5.00%	8,040	2,790		715	2,075	
2005 Series L:						
2017-2037, variable	20,000	20,000			20,000	
2006 Series A:						
2014-2035, 4.00% to 4.85%	8,775	8,775		295	8,480	
2006 Series B:						
2016-2037, 4.80% to 5.25%	15,420	10,415		2,385	8,030	
2006 Series C:						
2024-2037, variable	15,425	15,425			15,425	
2006 Series D:						
2012-2016, 5.03% to 5.24%	20,000	12,190		2,570	9,620	2,510

Continued

(dollars in thousands)

Note J--Revenue Bonds--Continued

	Original Face Amount	Balance July 1, 2010	Issued	Repaid/ Retired	Balance June 30, 2011	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2006 Series E:						
2012-2037, 3.90% to 5.00%	27,140	25,090		985	24,105	210
2006 Series F:						
2017-2030, variable	20,540	20,540			20,540	
2006 Series G:						
2012-2035, 5.12% to 5.52%	37,220	18,255		8,645	9,610	1,245
2006 Series H:						
2017-2037, 4.65% to 5.00%	41,495	36,570		1,630	34,940	
2006 Series I:						
2019-2032, variable	23,750	23,750			23,750	
2006 Series J:						
2012-2035, 5.52% to 5.92%	29,390	15,720		6,950	8,770	1,585
2006 Series K:						
2014-2034, 4.05% to 4.80%	9,585	9,585			9,585	
2006 Series L:						
2012-2037, 4.30% to 5.50%	19,085	11,595		3,090	8,505	395
2006 Series M:						
2017-2033, variable	21,000	21,000			21,000	
2006 Series N:						
2012-2017, 5.69 to 6.06%	8,965	4,310		4,310		
2006 Series O:						
2017-2036, variable	29,035	24,290		2,225	22,065	
2006 Series P:						
2014-2035, 3.80% to 4.60%	8,210	8,210			8,210	
2006 Series Q:						
2012-2038, 4.05% to 4.90%	41,790	36,845		1,885	34,960	730
2006 Series R:						
2012-2038, 5.315% to 5.816%	21,700	11,620		2,415	9,205	410
2006 Series S:						
2012-2037, 5.88%	15,000	9,480		2,445	7,035	120
2006 Series T:						
2017-2038, variable	23,300	20,005		2,410	17,595	
2006 Series U:						
2012-2038, 4.00% to 4.90%	45,000	43,360		1,230	42,130	675
2006 Series V:						
2012-2015, 5.33%	6,620	1,595		1,595		
2006 Series W:						
2017-2038, variable	38,380	29,080		8,050	21,030	

Continued

(dollars in thousands)

Note J--Revenue Bonds--Continued

	Original Face Amount	Balance July 1, 2010	Issued	Repaid/ Retired	Balance June 30, 2011	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2007 Series A:						
2012-2038, 3.90% to 4.65%	39,545	38,115		530	37,585	565
2007 Series B:						
2012-2038, 5.03% to 5.58%	38,000	27,250		6,895	20,355	560
2007 Series C:						
2012-2038, 4.00% to 4.80%	50,000	48,355		675	47,680	720
2007 Series D:						
2012-2038, 5.345% to 5.745%	30,000	19,720		5,030	14,690	240
2007 Series E:						
2012-2038, 4.00% to 4.85%	45,000	43,615		605	43,010	645
2007 Series F:						
2012-2038, 5.08% to 5.53%	30,000	22,525		8,080	14,445	445
2007 Series G:						
2014-2035, 3.90% to 4.75%	6,285	6,285			6,285	
2007 Series H:						
2012-2038, 4.125% to 5.00%	34,965	31,780		1,360	30,420	590
2007 Series I:						
2012-2038, 5.34% to 5.77%	16,620	12,915		4,915	8,000	495
2007 Series J:						
2018-2038, variable	17,130	14,635		500	14,135	
2007 Series K:						
2014-2035, 4.00% to 5.00%	7,405	7,405			7,405	
2007 Series L:						
2012-2038, 4.10% to 5.50%	25,485	23,545		1,005	22,540	185
2007 Series M:						
2012-2037, 5.19% to 6.06%	27,000	20,820		3,465	17,355	665
2007 Series N:						
2012-2038, 3.85% to 5.125%	40,000	37,485		1,985	35,500	535
2007 Series O:						
2012-2038, variable	10,000	8,535		885	7,650	125
2008 Series A:						
2012-2038, 3.05% to 5.30%	39,270	36,870		2,540	34,330	525
2008 Series B:						
2012-2038, variable	10,000	9,755		9,755		
2008 Series C:						
2013-2034, 3.45% to 5.00%	14,230	14,230			14,230	
2008 Series D:						
2012-2039, 4.10% to 5.65%	35,770	33,520		1,960	31,560	815
2008 Series E:						
2012-2039, 2.85% to 5.45%	60,000	57,155		1,895	55,260	1,245

Continued

(dollars in thousands)

Note J--Revenue Bonds--Continued

	Original Face Amount	Balance July 1, 2010	Issued	Repaid/ Retired	Balance June 30, 2011	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2008 Series F:						
2020-2038, 5.625%	10,000	8,830		1,290	7,540	
2009 Series A:						
2012-2040, 2.25% to 5.75%	40,000	39,450		2,000	37,450	910
2009 Series B:						
2012-2040, 1.40% to 5.15%	60,000	59,835		2,430	57,405	1,145
2009 Series C:						
2042, variable	120,000	120,000		90,000	30,000	30,000
2009 Series C, Sub series C-1:						
2027-2042, 3.81%	60,000	60,000		185	59,815	
2009 Series C, Sub series C-2:						
2028-2042, 3.81%	60,000	0	60,000		60,000	
2009 Series C, Sub series C-3:						
2028-2042, 3.55%	30,000	0	30,000		30,000	
2010 Series A:						
2012-2027, 0.60% to 5.00%	40,000	40,000		1,100	38,900	1,970
2010 Series B:						
2012-2027, 0.60% to 5.00%	40,000		40,000	650	39,350	1,970
2010 Series C:						
2028-2034, 4.375% to 4.625%	10,000		10,000	875	9,125	
2010 Series D:						
2015-2027, 3.05% to 5.25%	46,000		46,000	2,510	43,490	
2010 Series E:						
2021-2036, 3.625% to 4.75%	20,000		20,000		20,000	
2011 Series A:						
2012-2028, 0.50% to 5.00%	20,000		20,000		20,000	495
Total Housing Revenue Bonds	$ 3,268,130	2,236,735	$ 226,000	$ 366,165	2,096,570	$ 86,635
Unamortized premium		3,742			4,115	
Net Revenue Bonds		$ 2,240,477			$ 2,100,685	

As indicated above, several bond issues have a variable rate of interest. This rate is determined periodically by the bond remarketing agent as the minimum interest rate that would result in the sale of the variable-rate bonds at a price equal to the principal amount plus accrued interest thereon (not to exceed 10% on tax-exempt variable-rate bonds, and not to exceed a range of 18% to 21% on taxable variable-rate bonds).

Continued

(dollars in thousands)

Note J--Revenue Bonds--Continued

The revenue bonds are collateralized by the underlying mortgages financed by the proceeds from the revenue bonds, and by the pledge of the principal and interest collections received from these mortgages.

The Housing Revenue Bond principal maturities and sinking fund requirements are as follows:

	Amortization of Principal	Interest Expense	Total Debt Service
Fiscal years ending June 30,			
2012	$ 86,635	$ 92,231	$ 178,866
2013	59,890	93,504	153,394
2014	59,085	91,095	150,180
2015	60,085	88,631	148,716
2016	61,325	86,067	147,392
Five years ending June 30,			
2017-2021	349,545	386,699	736,244
2022-2026	379,640	299,538	679,178
2027-2031	432,430	204,648	637,078
2032-2036	438,110	94,843	532,953
2037-2041	165,270	13,838	179,108
Thereafter	4,555	85	4,640
	$ 2,096,570	$ 1,451,179	$ 3,547,749

The Corporation has routinely exercised early redemption options and has retired various bonds prior to their scheduled maturity dates with funds available for that purpose.

Interest expense was entirely incurred in business-type activities and was included in the bond financed loan programs function and administrative function in the Corporation-Wide statement of activities.

(dollars in thousands)

Note K--Interest Rate Swap Agreements

Summary of Derivative Instruments - The Corporation has entered into ten multiple pay-fixed, receive-variable interest rate swap agreements ("swaps") in order to hedge the interest rate exposure associated with variable rate debt and to reduce borrowing costs. Each of these swaps are cash flow hedges issued in conjunction with the business-type activities of the mortgage revenue bond program.

As of June 30, 2011, nine of the ten swaps were determined to be effective hedges, while the 2006 W swap has been deemed ineffective for the purposes of GASB 53. The effectively hedged swaps, which have a notional amount of $158,615 decreased in fair value by $3,069 and this amount is classified as a deferred inflow of resources. The fair value of the effectively hedged swaps is classified as a derivative instrument and has a negative aggregate fair value of $12,387.

As noted above the 2006 W swap has been deemed ineffective for purposes of GASB 53. This swap has a notional amount of $20,315 and had an increase in fair value of $599. The increase is recorded as investment revenue for the year ended June 30, 2011. The total negative fair value of all swaps in the amount of $13,884 is classified as a non-current liability on the balance sheet.

Objective –These agreements provide for reductions in the notional amount of the swaps to coincide with expected reductions in the outstanding amount of the associated bonds.

Terms - The following table displays the terms of each derivative:

Bond Series	Effective Date	Notional Amount Original	Notional Amount Outstanding	Maturity Date	Pay-Fixed Rate	Receive Variable Rate	Optional Call Dates
2005 Series B	4/7/2005	$ 16,330	$ 10,235	1/1/2032	3.188%	62% 3M LIBOR + 28 bp	1/1/2016
2005 Series H	10/11/2005	$ 21,925	$ 21,925	7/1/2036	3.725%	62% 1M LIBOR + 28 bp	1/1/2015
2005 Series L	12/1/2005	$ 20,000	$ 20,000	7/1/2036	3.627%	62% 1M LIBOR + 28 bp	1/1/2016
2006 Series C	1/26/2006	$ 15,425	$ 15,425	7/1/2036	3.914%	62% 1M LIBOR + 28 bp	1/1/2016
2006 Series F	4/11/2006	$ 20,540	$ 20,540	7/1/2029	3.764%	62% 1M LIBOR + 28 bp	7/1/2016
2006 Series I	6/8/2006	$ 23,750	$ 23,750	1/1/2032	4.127%	62% 1M LIBOR + 35 bp	7/1/2016
2006 Series M	8/9/2006	$ 21,000	$ 21,000	1/1/2033	4.178%	62% 1M LIBOR + 35 bp	7/1/2016
2006 Series O	8/9/2006	$ 29,035	$ 14,130	1/1/2017	5.700%	100% 1M LIBOR	N/A
2006 Series T	9/27/2006	$ 23,300	$ 11,610	1/1/2016	5.337%	100% 1M LIBOR	N/A
2006 Series W	11/29/2006	$ 38,380	$ 20,315	1/1/2016	5.318%	100% 1M LIBOR	N/A

Continued

Note K--Interest Rate Swap Agreements—Continued

Other than the optional call dates noted above, the swaps do not contain any other embedded options.

Risks - Credit risk is the risk that a counterparty will not fulfill its obligation. As of June 30, 2011, the swaps had a negative fair value of $13,884. To mitigate the potential for credit risk, the Corporation has contracted with A2/A/A and Aa3/A+/A+ rated counterparties.

Merrill Lynch Capital Services, Inc. (A2/A/A) serves as the counterparty for nine of KHC's derivative instruments and accounts for $158,615 of the total notional amount outstanding for all swaps. Furthermore, each of these instruments are guaranteed by Merrill Lynch Derivative Products AG, which is rated Aa3/AAA/AAA.

UBS AG (Aa3/A+/A+) serves as the counterparty for the remaining swap and accounts for $20,315 of the total notional amount outstanding.

The Corporation did not require or post collateral in relation to the above derivative instruments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the interest rate swaps. As each swap uses LIBOR as the basis to calculate the receive-variable rate, the Corporation is exposed to interest rate risk. The fair value of the swaps will generally decline with a decrease in interest rates and increase when interest rates increase. These changes in valuation do not affect the Corporation's cash flow.

Basis Risk is the risk that a counterparty's variable rate swap payments do not correspond to actual variable rate bond payments. When variable rate payments and variable rate swap receipts materially differ, the anticipated cost savings from entering into swaps may not be realized. The Corporation attempts to minimize the mismatch of these cash flows through the selection of a variable-received swap rate index that has demonstrated a historical trading differential similar to the underlying variable rate bonds. The terms and the potential mismatch of interest rates is shown in the table above.

Termination risk is the risk that an unscheduled end of a swap agreement will result in unintended unhedged variable rate debt outstanding and/or a termination payment will either be owing or due. The Corporation views the potential for termination to be remote; however, contingency plans for the financing of a termination payment or replacement of the swap are in place.

Rollover risk is the risk that a swap agreement does not extend to the maturity of the debt, thereby creating unhedged variable rate debt. The 2006 Series O, 2006 Series T, and 2006 Series W swaps have maturity dates of January 2017, January 2016, and January 2016, respectively. The maturity date for the debt associated with these swaps mature in January 2036, July 2037, and July 2037, respectively.

Continued

(dollars in thousands)

Note K--Interest Rate Swap Agreements—Continued

Market-access risk is the risk that the Corporation will not be able to enter credit markets or that credit markets will become more costly. The Corporation has evaluated this risk and determined that the swaps do not create any material market-access risk.

Associated Debt – As detailed above, the interest rate swaps are associated with certain debt obligations of the Corporation. On each debt service date, the Corporation pays or receives a net swap payment in conjunction with each swap. The net swap payment is the difference between the fixed rate interest paid to the counterparty and the variable rate interest received by the counterparty.

As of June 30, 2011, debt service requirements of the associated bond series and net swap payments were as follows, assuming interest rates in effect at June 30, 2011:

	Principal	Interest	Net Swap Payments	Total
2012	$ 385	$ 332	$ 6,431	$ 7,148
2013	415	331	5,815	6,561
2014	345	331	5,287	5,963
2015	195	330	4,845	5,370
2016	85	330	4,495	4,910
2017-2021	26,980	1,554	20,169	48,703
2022-2026	46,680	1,269	15,286	63,235
2027-2031	56,990	866	8,593	66,449
2032-2036	54,730	431	3,021	58,182
Thereafter	6,405	42	-	6,447
	$ 193,210	$ 5,816	$ 73,942	$ 272,968

Note L--Conduit Debt Obligations

The Corporation uses its tax-exempt debt issuing authority to provide financial assistance to private-sector developers for the acquisition and rehabilitation, or the construction of multi-family housing projects serving low-to-moderate income households.

The debt is collateralized by revenues generated by the properties financed and is repayable solely from payments received on the underlying mortgage loans and any specific third-party credit enhancement associated with the individual financings.

Through June 30, 2011, conduit debt obligations have been issued for 17 multi-family projects totaling approximately $144,573. The debt does not constitute a liability or a pledge of faith and credit of the Corporation and, accordingly, has not been reported in the Corporation-Wide financial statements.

Note M--Retirement Plan

Plan Description--All full-time and eligible part-time employees of the Corporation participate in the Kentucky Employees Retirement System ("KERS" or "the Plan"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Kentucky Retirement System Board of Trustees. The KERS issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Funding Policy--Plan members, depending on their beginning date of participation, are required to contribute 5% or 6% of their annual covered salary and the Corporation is required to contribute at an actuarially determined rate. The Corporation's rate was 16.98% and 11.61% for the years ended June 30, 2011 and 2010, respectively. Subsequent to June 30, 2011, the rate was 19.82%. The contribution requirements of Plan members and the Corporation may be amended by the Kentucky Retirement System Board of Trustees. The Corporation's required contributions to KERS for the years ended June 30, 2011, 2010 and 2009 were $2,522, $1,751 and $1,397, respectively, and were fully paid to the Plan.

On June 27, 2008 House Bill 1, the Pension Reform legislation, was signed into law. This legislation will significantly impact retirement benefits for employees who begin participating in KERS on or after September 1, 2008. The law also has a few provisions that will affect current employees and retirees. Employees who began participation in KERS on or after September 1, 2008 are required to contribute 6% of their annual covered salary. Employers, including the Corporation, will continue to be required to contribute at an actuarially determined rate. House Bill 1 contained a provision expressing the intent of the General Assembly to gradually increase the employer contributions to the KERS beginning July 1, 2010. If in the future the General Assembly adheres to this schedule, all participating agencies will be required to pay the full employer contribution by 2025. The financial impact to the Corporation in these future years is not yet known.

Note N--Post-Employment Health Care Benefits

Retired Corporation employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the KERS. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Note O--Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies. There have been no reductions in insurance coverage during the year ended June 30, 2011. Settlements have not exceeded insurance coverage.

Note P--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 25, 2011, the date the financial statements were issued.

In August 2011, the Board of Directors of the Corporation authorized the sale of up to $140,000 aggregate principal amount of MBS's pledged as security under the Corporation's Resolution. On or about September 2, 2011, the Corporation sold approximately $132,000 of its MBS investments for proceeds of approximately $146,000. The proceeds of the sale of such MBS's constitutes "Recoveries of Principal" and, as required by the Resolution, will be applied to redeem outstanding bonds of the Corporation. It is expected that such redemptions will occur between October 10, 2011 and November 1, 2011.

Note Q--Contingencies

In the normal course of operations, the Corporation receives funding from federal and state government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the Corporation for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Corporation's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules, and regulations of federal and state legislative and regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

Supplemental Combining Information
Housing Revenue Bond Funds

Combining Statement of Net Assets – Housing Revenue Bond Funds

Kentucky Housing Corporation

June 30, 2011
(dollars in thousands)

ASSETS	Bond Proceeds Fund	Recoveries of Principal Fund	Bond Debt Service Fund	Bond Debt Service Reserve Fund	Trust Fund	Redemption Fund	Combined Totals
Current Assets							
Cash and cash equivalents	$ (10,076)	$ 7,375	$ 4,817		$ 63		$ 2,179
Investment securities	45,220	13,633	93,885	$ 37,862	1,135	$ 40,540	232,275
Mortgage-backed securities	21,474			1,391			22,865
Housing mortgage loans	29,377				1,684		31,061
Account receivable and other assets			612				612
Interfund accounts	(361)	(72)	352		(9)		(90)
Total Current Assets	85,634	20,936	99,666	39,253	2,873	40,540	288,902
Noncurrent Assets							
Investment securities				100,858			100,858
Mortgage-backed securities	872,743			56,513			929,256
Housing mortgage loans	1,020,870				35,400		1,056,270
Unamortized debt issuance costs	14,373						14,373
Deferred servicing costs and other assets	18,691		1,102		65		19,858
Deferred outfow of resources - interest rate swaps			12,387				12,387
Total Noncurrent Assets	1,926,677		13,489	157,371	35,465		2,133,002
Total Assets	2,012,311	20,936	113,155	196,624	38,338	40,540	2,421,904
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	35						35
Accrued interest payable			46,279				46,279
Revenue bonds - current portion	86,635						86,635
Total Current Liabilities	86,670		46,279				132,949
Noncurrent Liabilities							
Revenue bonds	2,014,050						2,014,050
Derivative instrument - interest rate swap			13,884				13,884
Total Noncurrent Liabilities	2,014,050		13,884				2,027,934
Total Liabilities	2,100,720		60,163				2,160,883
NET ASSETS							
Restricted by revenue bond indenture	$ (88,409)	$ 20,936	$ 52,992	$ 196,624	$ 38,338	$ 40,540	$ 261,021

See Independent Auditors' Report

Combining Statement of Revenues, Expenses and Changes in Net Assets – Housing Revenue Bond Funds

Kentucky Housing Corporation

Year Ended June 30, 2011
(dollars in thousands)

	Bond Proceeds Fund	Recoveries of Principal Fund	Bond Debt Service Fund	Bond Debt Service Reserve Fund	Trust Fund	General Revenue Fund	Redemption Fund	Combined Totals
Operating Revenues								
Interest and fee income								
Housing mortgage loans	$ 58,948				$ 512			$ 59,460
Mortgage-backed securities	42,004			$ 3,232				45,236
Marketable securities	154	$ 48	$ 4	1,665		$ 28		1,899
Net increase in fair value of marketable securities	6,913			(220)				6,693
Net increase in fair market value of swaps			599					599
Other income				415				415
Total Operating Revenues	108,019	48	603	5,092	512	28		114,302
Operating Expenses								
Interest on revenue bonds			93,662					93,662
Provision for losses on loans	1,876							1,876
Mortgage loan servicers' fees	3,855				133			3,988
Amortization of lender compensation	7,004				45			7,049
Amortization of debt issuance costs	1,208							1,208
Early extinguishment of debt	977							977
Total Operating Expenses	14,920		93,662		178			108,760
Operating Income (Loss)	93,099	48	(93,059)	5,092	334	28		5,542
Interfund Transfers	(107,241)	(13,035)	92,363		(2,112)	(28)	$ 21,456	(8,597)
Change in Net Assets	(14,142)	(12,987)	(696)	5,092	(1,778)		21,456	(3,055)
Net Assets, Beginning of Year	(74,267)	33,923	53,688	191,532	40,116		19,084	264,076
Net Assets, End of Year	$ (88,409)	$ 20,936	$ 52,992	$ 196,624	$ 38,338	$	$ 40,540	$ 261,021

See Independent Auditors' Report

Combining Statement of Cash Flows – Housing Revenue Bond Funds

Kentucky Housing Corporation

Year Ended June 30, 2011
(dollars in thousands)

	Bond Proceeds Fund	Recoveries of Principal Fund	Bond Debt Service Fund	Bond Debt Service Reserve Fund	Trust Fund	General Revenue Fund	Redemption Fund	Combined Totals
Cash Flows From Operating Activities								
Interest income on loans	$ 58,948				$ 512			$ 59,460
Operating expenses	(6,820)				(133)			(6,953)
Fundings of housing mortgage loans	(121,109)				(617)			(121,726)
Repayments on housing mortgage loans	113,428				2,308			115,736
Conversion of mortgage loans to mortgage-backed securities	269,497							269,497
Other, net	(35,216)	$ 72	$ 664		1		$ (101)	(34,580)
Net Cash Provided By (Used In) Operating Activities	278,728	72	664		2,071		(101)	281,434
Cash Flows From Noncapital Financing Activities								
Proceeds from issuance of revenue bonds	227,145							227,145
Payments for debt issuance costs	(1,518)							(1,518)
Principal payments on revenue bonds			(366,165)					(366,165)
Interest payments on revenue bonds			(96,061)					(96,061)
Interfund transfers - loan collections and investment income	(316,606)	193,472	116,676		(2,111)	$ (28)		(8,597)
Interfund transfers - purchase of mortgage loans	9,144	(9,143)	(1)					
Interfund transfers - refunding line of credit		(101)					101	
Interfund transfers - retirement of debt	(166,000)	(197,263)	341,908				21,355	
Net Cash Provided By (Used In) Noncapital Financing Activities	(247,835)	(13,035)	(3,643)		(2,111)	(28)	21,456	(245,196)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(1,138,665)	(209,594)	(191,568)	$ (266,409)	(728)		(153,130)	(1,960,094)
Conversion of mortgage loans to mortgage-backed securities	(269,497)							(269,497)
Sales of investments and mortgage-backed securities	1,336,544	220,645	193,879	261,081	752		131,775	2,144,676
Interest received on investments and mortgage-backed securities	41,629	48	4	5,328		28		47,037
Net Cash Provided By (Used In) Investing Activities	(29,989)	11,099	2,315		24	28	(21,355)	(37,878)
Net Increase (Decrease) in Cash and Cash Equivalents	904	(1,864)	(664)		(16)			(1,640)
Cash and Cash Equivalents, Beginning of Year	(10,980)	9,239	5,481		79			3,819
Cash and Cash Equivalents, End of Year	$ (10,076)	$ 7,375	$ 4,817	$	$ 63	$	$	$ 2,179

Continued

Combining Statement of Cash Flows – Housing Revenue Bond Funds--Continued

Kentucky Housing Corporation

Year Ended June 30, 2011

(dollars in thousands)

	Bond Proceeds Fund	Recoveries of Principal Fund	Bond Debt Service Fund	Bond Debt Service Reserve Fund	Trust Fund	General Revenue Fund	Redemption Fund	Combined Totals
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities								
Operating income (loss)	$ 93,099	$ 48	$ (93,059)	$ 5,092	$ 334	$ 28		$ 5,542
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities								
Amortization of deferred costs	8,212				45			8,257
Provision for losses on loans	1,876							1,876
Interest expense on revenue bonds			93,662					93,662
Interest income on mortgage-backed securities	(42,004)			(3,232)				(45,236)
Interest income on marketable securities	(154)	(48)	(4)	(1,665)		(28)		(1,899)
Net increase (decrease) in fair value of marketable securities	(6,913)			220				(6,693)
Net increase in fair value of swaps			(599)					(599)
Early Extinguishment of Debt	977							977
Other income				(415)				(415)
Changes in operating assets and liabilities								-
Fundings of housing mortgage loans	(121,109)				(617)			(121,726)
Repayments on housing mortgage loans	113,428				2,308			115,736
Conversion of mortgage loans to mortgage-backed securities	269,497							269,497
Other, net	(38,181)	72	664		1		$ (101)	(37,545)
Net Cash Provided By (Used In) Operating Activities	$ 278,728	$ 72	$ 664	$	$ 2,071	$	$ (101)	$ 281,434

Report on Internal Control
Over Financial Reporting and on Compliance
And Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards*

Report on Internal Control
Over Financial Reporting and on Compliance
And Other Matters Based on an Audit of
Financial Statements Performed in Accordance
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Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities and the individual fund information of the Kentucky Housing Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated September 25, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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*.

We noted certain other matters that we reported to management of the Corporation in a separate letter dated September 25, 2011.

This report is intended solely for the information and use of the Board of Directors, management, the Auditor of Public Accounts, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and the distribution is unlimited.

Mountjoy Chilton Medley LLP

Frankfort, Kentucky
September 25, 2011