Kentucky Housing Corporation

Financial Statements
June 30, 2014

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Crowe Horwath LLP
Independent Member Crowe Horwath International

Independent Auditor's Report

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on page 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

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 basic financial statements on page 43 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated September 25, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 25, 2014

Management's discussion and analysis of Kentucky Housing Corporation's (Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2014. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Overall, the Corporation's net position increased $8.9 million, the result of an increase in net position of the Corporation's business-type activities of $11.4 million, reduced by a decrease in net position of the Corporation's governmental activities of $2.5 million. In its business-type activities, the Corporation experienced increases in substantially all major income categories over the prior year and kept expenses at near prior year levels.

- Low prevailing interest rates continued for all of fiscal 2014, resulting in relatively high loan payoff activity, causing a reduction of $211.5 million in program purpose assets, as well as reduced investment returns, both of which put downward pressure on interest margins.

- The Corporation was able to take advantage of these low rates by successfully completing $95 million in economic refunding of eligible bond series during fiscal 2014. The resulting reduction in the Corporation's cost of funds offset the decrease in interest income from loans and mortgage-backed securities, resulting in an improvement in net interest margin of $2 million over fiscal 2013 results.

- The Corporation continued to use the Secondary Market Mortgage Purchase program to facilitate mortgage loan originations at competitive rates. Single-family loan originations in this program totaled $207.6 million, with $209.4 million of available loans subsequently sold into the secondary market. Secondary market sales generated $10.7 million in gains for the Corporation. Additionally, $23.1 million of new loan production was generated in the Corporation's bond indenture.

- The Corporation's serviced for others loan portfolio at June 30, 2014 totaled $523.9 million, or approximately one-third of the Corporation's total single-family mortgage servicing, compared with $292.7 in the prior year.

- In response to continuing decreases in levels of federally funded programs, the Corporation underwent a restructuring to better align functional responsibilities and better leverage automation, resulting in the streamlining of operations, the closing of two branch facilities and staff reductions. The resulting structure will enable the Corporation to more quickly respond to the continually changing landscape of affordable housing initiatives and better deliver the mission of providing safe, affordable housing.

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 Position 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.

(Continued)

- 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 Net Position. 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.

- Business-type activities are reported under Proprietary Funds financial statements. These statements consist of a Statement of Fund Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position 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 14 and 15

The Kentucky Housing Corporation (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 promote affordable residential housing. Several programs are identified within the financial statements as governmental type 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 ("Rental Assistance"), 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 funded by the Commonwealth of Kentucky.

The Corporation also operates a number of programs that are identified as business-type activities. These activities include providing financing with favorable terms to qualified homebuyers and developers of affordable rental housing; servicing single-family and multifamily loan portfolios; and administering the Federal Low Income Housing Tax Credit program.

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 position as reflected in the Statement of Net Position. 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 the MD&A and under the Proprietary Funds' financial statements on pages 18-22.

(Continued)

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 revenues and expenses 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 fund net position that is to be expended for program purposes. The net revenue of all business-type activities results in an increase in the Fund Net Position of the Corporation. The Corporation's overall net position increased by $8.9 million for the year ended June 30, 2014. Table 1 shows condensed financial information from the Statement of Net Position:

Table 1
Statement of Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total Corporation	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Current assets	$ 56.5	$ 35.4	$ 290.0	$ 310.0	$ 346.5	$ 345.4
Non-current assets	-	-	1,321.7	1,543.4	1,321.7	1,543.4
Total Assets	56.5	35.4	1,611.7	1,853.4	1,668.2	1,888.8
Total Deferred Outflows of Resources	-	-	6.8	10.4	6.8	10.4
Current liabilities	(34.7)	(11.1)	(141.2)	(165.6)	(175.9)	(176.7)
Non-current liabilities	-	-	(1,182.1)	(1,414.4)	(1,182.1)	(1,414.4)
Total Liabilities	(34.7)	(11.1)	(1,323.3)	(1,580.0)	(1,358.0)	(1,591.1)
Net Position:						
Invested in capital assets	-	-	3.6	3.8	3.6	3.8
Restricted	21.8	24.3	230.0	221.6	251.8	245.9
Unrestricted	-	-	61.6	58.4	61.6	58.4
Net Position	$ 21.8	$ 24.3	$ 295.2	$ 283.8	$ 317.0	$ 308.1

The net position of the governmental activities decreased from $24.3 million to $21.8 million. All assets of the Corporation's governmental activities are externally restricted for program purposes. Total assets subject to immediate disbursement are reflected as current liabilities and remaining assets are reflected as restricted net position. The decrease in net position indicates that revenues received from governmental activities were less than program grants, operating expenditures and transfers.

The net position of the Corporation's business-type activities increased from $283.8 million to $295.2 million as a result of total revenues of $91.4 million, total program expenses of $81.9 million, and transfers in from government operations of $1.9 million, for a net increase in net position of business-type activities of $11.4 million. Comparisons in the changes in net position between fiscal years 2013 and 2014 provide additional insight on the Corporation's operating performance. Table 2 shows condensed Statement of Activities financial information.

(Continued)

Table 2
Statement of Activities
(in millions)

	Governmental Activities		Business-Type Activities		Total Corporation	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Revenues						
Operating revenues	$ 12.0	$ 12.6	$ 91.4	$ 70.2	$ 103.4	$ 82.8
Operating grants	202.1	226.7	-	-	202.1	226.7
Total Revenues	214.1	239.3	91.4	70.2	305.5	309.5
Program Expenses						
Rental subsidy administration	152.0	148.5	-	-	152.0	148.5
Weatherization program	2.4	6.8	-	-	2.4	6.8
HOME program	13.4	17.3	-	-	13.4	17.3
Unemployment Bridge program	27.0	28.2	-	-	27.0	28.2
Other federal and state programs	19.9	23.1	-	-	19.9	23.1
Administrative	-	-	11.6	10.5	11.6	10.5
Bond financed loan programs	-	-	57.4	73.9	57.4	73.9
Loan servicing	-	-	6.0	6.9	6.0	6.9
Other loan and housing credit programs	-	-	6.9	5.1	6.9	5.1
Total Program Expenses	214.7	223.9	81.9	96.4	296.6	320.3
Excess before transfers	(.6)	15.4	9.5	(26.2)	8.9	(10.8)
Transfers	(1.9)	(2.0)	1.9	2.0	-	-
Increase (Decrease) in Net Position	$ (2.5)	$ 13.4	$ 11.4	$ (24.2)	$ 8.9	$ (10.8)

Total revenues for governmental activities were $214.1 million during fiscal year 2014, a $25.2 million decrease from the $239.3 million in revenues in fiscal year 2013. The decrease was due to a $24.6 million decrease in operating grants and a $.6 million decrease in charges for services. Fiscal year 2014 operating grants include federal funding for Rental Assistance ($147.2 million), HOME ($12.5 million), Unemployment Bridge ($17.1 million) and Weatherization ($1.9 million), which represent 88% of total operating grant revenues.

The Corporation receives fees or charges for services for federal program administration. These revenues decreased from $12.6 million in 2013 to $12.0 million during fiscal year 2014. 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 2014, $12.0 million in fee revenue was received and $10.1 million in operating expenses were incurred thereby enabling a $1.9 million transfer, the same amount similarly derived and transferred in 2013.

(Continued)

Program expenses for governmental activities decreased during 2014 by $9.2 million. Program expenses for governmental activities during 2014 were $214.7 million, comprised of grants of $204.6 million and operating expenses of $10.1 million, as discussed above. In fiscal 2013, total program expenses were $223.9 million with grants of $213.3 million and operating expenses of $10.6 million.

Total revenues for business-type activities were $91.3 million during fiscal year 2014, a $21.1 million increase from the $70.2 million of revenues in fiscal year 2013. For fiscal 2014, gains on the sale of mortgage-backed and marketable securities and loans held for sale increased $4.7 million, interest earnings from loans, mortgage-backed securities and other investments decreased $13.9 million, other income increased $1.3 million, the change in fair market value of securities increased $29.3 million, and the change in the fair market value of swaps decreased $.2 million.

Program expenses for business-type activities decreased $14.6 million from $96.4 million in 2013 to $81.8 million in 2014. Bond financed loan program expenses decreased by $16.6 million, administrative expenses, or expenses not directly attributable to programs, increased by $1.1 million, loan servicing expenses decreased by $.9 million and other loan program expenses increased by $1.8 million. The line items related to these expenses are presented in detail in Table 2.

The excess of revenues over expenses for business-type activities was $9.5 million in 2014 compared to a $26.2 million excess of expenses over revenues in 2013, an increase of $35.7 million from 2013. As described above and in additional detail under "Proprietary Funds," the increase is due to a $21.2 million increase in revenues and a $14.5 million decrease in expenses. Transfers-in were $1.9 million in 2014, the same as in 2013. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities net position of $11.4 million.

Fund Financial Statements

The following section provides information on the Corporation's fund financial statements.

Governmental Funds – Pages 16 and 17

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, 2014, the Corporation retained $56.5 million of total assets for program purposes and had $34.7 million reflected as liabilities resulting in a total of $21.8 million reflected as restricted fund balances.

(Continued)

During fiscal year 2014, the Affordable Housing Trust Fund had revenues greater than expended funds of $.4 million, thereby increasing the program's fund net position. Rental Assistance programs operated in such a manner that most revenues were either expended for the programs, $147.2 million, or transferred to proprietary funds, $1.9 million. Similarly, all HOME program revenues, $13.4 million, were expensed in an equal amount in 2014, as were Weatherization revenues of $2.3 million. Expenses of the Unemployment Bridge program exceeded revenues by $6.7 million, thereby decreasing the fund net position of the Unemployment Bridge funds. Finally, Other Housing Funds revenues exceeded expenses by $3.8 million, thereby increasing the fund net position of Other Housing Funds.

Proprietary Funds – Pages 18 through 22

A significant portion of the Corporation's financial resources and activities is reported in the proprietary fund financial statements. Proprietary funds account for approximately 97% of corporate assets, 88% of non-grant revenues, 89% of operating expenses and 100% of the Corporation's unrestricted net position.

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 89% of the total assets, 74% of total revenues, and 75% of the fund net position of proprietary fund combined totals.

The Corporation's primary business-type activity involves the production and/or sale of single-family mortgage loans. This objective is achieved through the Corporation's Housing Revenue Bond program or the Secondary Market Mortgage Purchase program.

Historically, the Corporation has issued mortgage revenue bonds 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 borrowers to 1.125%. This spread allows the Corporation to cover bond interest and operating costs, including servicing costs, of the housing finance program.

Since 2012 most of the Corporation's single-family mortgage loan production has been through the Secondary Market Mortgage Purchase program. This program allows the Corporation to fund mortgage loans outside the bond indenture at more competitive market rates with the intent of selling the mortgages at a premium. Through this program, the Corporation agrees to purchase various mortgage loans from its lender partners. In the case of agency insured/guaranteed loans, the mortgages are pooled into mortgage-backed securities issued by the Government National Mortgage Association ("GNMA") which are then sold on the "TBA" market. Beginning in fiscal year 2013, the Corporation also began funding uninsured conventional loans for sale on a whole loan basis to Fannie Mae. These loans are subject to a brief period during which they are sold with recourse back to the Corporation, after which they revert to full recourse to Fannie Mae.

Loans sold pursuant to the Secondary Market Mortgage Purchase program are sold with servicing retained by the Corporation. However, the servicing fee rates are lower than the interest rate spread enjoyed on traditional bond program servicing. Therefore, the recurring revenue stream attributable to loan servicing will be smaller in future years than that which the Corporation has recorded in the past.

(Continued)

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

Table 3
Proprietary Funds
Statement of Net Position
(in millions)

	2014	2013	Change
Program-Purpose Assets:			
Mortgage loans and real estate owned	$ 775.5	$ 844.5	$ (69.0)
Mortgage-backed securities	451.0	597.1	(146.1)
Housing construction loans	8.4	4.0	4.4
Other loans	9.9	10.7	(0.8)
Total Program-Purpose Assets	1,244.8	1,456.3	(211.5)
Cash and Investments	337.5	367.5	(30.0)
Loans held for sale	14.3	16.1	(1.8)
Other assets	15.0	13.5	1.5
Total Assets	1,611.6	1,853.4	(241.8)
Total Deferred Outflows of Resources	6.8	10.4	(3.6)
Bonds payable	(1,189.6)	(1,433.9)	(244.3)
Other liabilities	(133.6)	(146.1)	(12.5)
Total Liabilities	(1,323.2)	(1,580.0)	(256.8)
Fund Net Position	$ 295.2	$ 283.8	$ 11.4

Mortgage loans, mortgage-backed securities, housing construction loans and other loans decreased by $211.5 million or 15% during 2014. Total program-purpose assets at June 30, 2014 were $1.24 billion. The decrease was the result of mortgage loan fundings of $59.5 million, mortgage loan repayments of $125.3 million, a loan loss provision increase of $1.9 million, an accrued mortgage loan interest decrease of $.5 million, plus net decreases in mortgage-backed securities, housing construction loans, other loans and real estate owned and related receivables, of $143.3 million, of which $63.2 million was due to the sale of mortgage-backed securities and the majority of the remaining $80.1 million decrease was due to payments and payoffs received on the loans underlying the mortgage-backed securities.

(Continued)

Offsetting the decrease in Program Assets reflected in the Statement of Net Position is a net increase of $231.2 million in loans serviced for others, from $292.7 million to $523.9 million, generated by the Secondary Market Mortgage Purchase program. The loans serviced for others portfolio is not reported in the Statement of Net Position. As discussed above, this portfolio contains net servicing fee rates lower than the net spread experienced on bond program servicing, but such servicing is acquired at a net cash profit, compared to a net cash cost of generating bond program servicing. The increase in loans serviced for others results from origination and subsequent sale into the secondary market of approximately $209.4 million and acquisitions of $63.2 million, net of payoffs and loan principal payments totaling approximately $41.4 million.

The 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, 2014, the Debt Service Reserve requirement was $104.3 million and the amount on deposit was $161.5 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.) The Corporation has reserved approximately $50 million of the remaining $57.2 million in excess reserves for purposes of providing self-liquidity for certain of the Corporation's variable rate bonds, thereby saving the cost of paying outside liquidity providers.

During 2014, the Corporation issued short- and long-term bonds and incurred other short-term debt (lines of credit) in the amount of $190.6 million. This includes Housing Revenue Bonds issued of $100.0 million. Total bond and line-of-credit principal repayments was $435.2 million and the change in net unamortized bond premium was $.2 million. As a result of this activity, bonds outstanding decreased $244.4 million and short-term debt decreased by $.2 million. The Corporation's Housing Revenue Bond Indenture is rated AAA by Standard & Poor's with a stable outlook and is rated Aaa by Moody's with a stable outlook.

(Continued)

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

Table 4
Proprietary Funds
Revenues, Expenses, and Changes in Fund Net Position
(in millions)

	2014	2013	Change
Interest income--loans	$ 41.1	$ 47.3	$ (6.2)
Interest income--mortgage-backed securities	22.3	31.1	(8.8)
Interest income--investment securities	2.9	1.8	1.1
Total interest income	66.3	80.2	(13.9)
Interest expense	(49.3)	(65.2)	15.9
Net Interest income	17.0	15.0	2.0
Increase (decrease) in fair value of marketable securities	(1.5)	(30.8)	29.3
Increase (decrease) in fair market value of swaps	0.3	0.5	(0.2)
Gains on sales of mortgage-backed and marketable securities and loans held for sale	15.0	10.3	4.7
Provision for loan losses	(1.7)	(1.6)	(0.1)
Net Investment Income	29.1	(6.6)	35.7
Other income	11.3	10.0	1.3
General and administrative expenses	(20.2)	(20.3)	0.1
Other expenses	(10.7)	(9.3)	(1.4)
Interfund transfers	1.9	2.0	(0.1)
Changes in Fund Net Position	$ 11.4	$ (24.2)	$ 35.6

Net position increased by $11.4 million in 2014, compared to a $24.2 million decrease for 2013. The increase is attributable to several factors. Gains on sales of mortgage-backed and other marketable securities and loans held for sale increased from $10.3 million in 2013 to $15.0 million in 2014, an increase of $4.7 million. The fair value of investment securities decreased by $1.5 million in 2014 compared to a $30.8 million decrease in 2013, representing an overall increase of $29.3 million. Generally, investment securities the Corporation holds, specifically its mortgage-backed securities, will decrease in value as market interest rates increase.

Net interest, the difference between total interest income and interest expense, increased $2.0 million from $15.0 million in 2013 to $17.0 million in 2014. Other (fee) income increased $1.3 million from $10.0 million in 2013 to $11.3 million in 2014. The change in fair market value of swaps decreased $.2 million from a $.5 million increase in 2013 to a $.3 million increase in 2014. The provision for loan losses increased $.1 million, from $1.6 million in 2013 to $1.7 million in 2014.

(Continued)

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs and servicing release premiums, increased by $1.4 million from $9.3 million in 2013 to $10.7 million in 2014. General and administrative expenses decreased by $.1 million from $20.3 million in 2013 to $20.2 million in 2014.

Finally, changes in fund net position were impacted by interfund transfers of $1.9 million, a $.1 million decrease from transfers of $2.0 million in 2013. (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'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. In addition to the Corporation's restructuring efforts during fiscal 2014, management will continue to adapt to the ongoing overall reductions in funding of housing programs at the federal level. The continued decrease in available funds has required, and will continue to require, changes in the way the Corporation delivers safe, affordable housing to Kentucky's citizens in need.

Perhaps the single most immediate financial issue facing the Corporation is the scheduled increase in the Corporation's future pension funding requirement. The Corporation participates in the Kentucky Employees Retirement System ("KERS") and has always paid into the plan at the state mandated required contribution rate. That pay-in rate has been determined to have been well short of the rate necessary to fully fund the plan's pension obligations.

Due to the underfunded status of the pension plan and the revised funding schedule required by recent legislation, the Corporation's pension contribution is budgeted to increase in Fiscal 2015 by approximately $1.5 million. Such an increase will require funding that would otherwise be available to the Corporation in fulfillment of its mission. Management continues to explore actions to minimize the impact to the Corporation from the increased pension contribution. Beginning in fiscal 2015, the Corporation will adopt GASB Statement No. 68, which among other provisions will require the Corporation to reflect in its corporation-wide financial statements the actuarially estimated amount for a net pension liability. Though the amount is presently not known, management will be proactive in communicating its effect, when it becomes known, with the investment and financial community.

The Corporation's Secondary Mortgage Market Purchase program continues to provide means by which the Corporation can continue to provide home financing to the citizens of Kentucky. While this method provides a comparatively low interest rate/servicing spread compared to Housing Revenue Bond financing, it has over the past two years produced relatively high trading gains upon sale of the loans, essentially shifting the timing of revenue realization to the current period, rather than future periods. Managing this shift in the timing of revenue realization is essential to maintain effective Corporate budgeting in future periods. Management is constantly monitoring the mortgage markets to properly balance loan volumes with gains, while still providing needed mortgage money to support housing needs. Management remains vigilant in seeking the most cost effective sources of financing to maximize the Corporation's home mortgage programs.

(Continued)

As discussed above, with the Secondary Mortgage Market Purchase program being the primary funding source for single family loan production, the bond indenture portfolio, with its relatively higher net interest spread, continues to shrink. Corporation management, as it has in the past, will continue to take advantage of refunding and other net interest improving techniques to maximize the net interest margin from this portfolio. As demonstrated in recent refundings, the Corporation's credit strength continues to be well received by both the retail and institutional investment communities.

As of June 30, 2014 the total amount of variable rate debt was $181.5 million of the total bond indebtedness of $1.19 billion, or 15.3%. The Corporation mitigates interest rate risk with interest rate swaps on $136.4 million of its variable rate debt. After several years of low short term interest rates, and with many of its swaps approaching their optional par termination dates, management is developing strategies to take maximum advantage of the impact on its borrowings of different interest rate scenarios, particularly scenarios of rising interest rates, by continually managing its balance sheet with refundings, redemptions, bond structures and cash management techniques.

Corporation management is watching closely the ongoing discussions in Washington, D.C., concerning the future of Fannie Mae and Freddie Mac. Significant developments concerning these entities could create substantial changes in national housing finance initiatives, which could result in significant adjustments in the Corporation's delivery of affordable home finance. Similarly, management is closely monitoring other possible legislation and regulatory changes that may have a negative impact on the Corporation's ability to fulfill its mission to the citizens of the Commonwealth and will be working with its national trade group and others to mitigate the impact of such legislation.

Kentucky's economic environment continues to slowly improve, though high unemployment rates and still depressed housing values subject the Corporation's balance sheet to ongoing, though decreasing, stress. The Corporation's historic concentration on government insured/guaranteed and conventional insured mortgage loan investments, coupled with conservative investment requirements of the Corporation's bond indenture, limit the Corporation's exposure to much default risk. Most of the Corporation's investment in Fannie Mae MBS's is with recourse to Fannie Mae and there is minimal underlying default risk associated with the loans backing the Corporation's GNMA MBS investments. Corporate MBS holdings at June 30 totaled $451 million. Additional information on the Corporation's MBS investments and allowance for loan losses can be found in Notes C, D, E and F in the "Notes to Financial Statements."

Consistent with its mission, the Corporation continues to serve Kentuckians seeking to become first-time homebuyers with competitive rates, Mortgage Credit Certificates and down-payment assistance. With continued aggressive balance sheet management, the addition of new products and services and emphasis on multi-family preservation to meet the needs of the population it serves, the Corporation expects to maintain its position as Kentucky's affordable housing leader.

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, 2014. Questions and inquiries may be directed to James F. Statler, Chief Financial Officer at Kentucky Housing Corporation, 1231 Louisville Road, Frankfort, Kentucky 40601. Telephone: (502) 564-7630, x286, fax: (502) 564-7322, e-mail: jstatler@kyhousing.org.

Kentucky Housing Corporation
Corporation-Wide Statement of Net Position
June 30, 2014
(Dollars in thousands)

ASSETS	Governmental Activities	Business-Type Activities	Combined Totals
Current Assets			
Cash and cash equivalents	$ 41,725	$ 62,768	$ 104,493
Investment securities	13,345	147,890	161,235
Mortgage-backed securities	-	15,755	15,755
Housing mortgage loans held for sale	-	14,269	14,269
Housing mortgage loans	-	30,433	30,433
Housing construction loans	-	8,413	8,413
Other loans	-	766	766
Accounts receivable and other assets	2,425	8,689	11,114
Interfund accounts	(981)	981	-
Total Current Assets	56,514	289,964	346,478
Noncurrent Assets			
Investment securities	-	126,864	126,864
Mortgage-backed securities	-	435,209	435,209
Housing mortgage loans	-	739,478	739,478
Other loans	-	9,093	9,093
Real estate owned and related receivables	-	5,563	5,563
Capital assets	-	3,595	3,595
Other noncurrent assets	-	1,869	1,869
Total Noncurrent Assets	-	1,321,671	1,321,671
Total Assets	56,514	1,611,635	1,668,149
Deferred Outflows of Resources			
Accumulated decrease in fair value of derivatives - interest rate swaps	-	6,785	6,785
LIABILITIES			
Current Liabilities			
Lines of credit	-	39,825	39,825
Accounts payable and other liabilities	34,704	1,789	36,493
Accrued interest payable	-	21,624	21,624
Escrows and project reserves	-	49,676	49,676
Revenue bonds, due within one year	-	28,255	28,255
Total Current Liabilities	34,704	141,169	175,873
Noncurrent Liabilities			
Revenue bonds, due after one year	-	1,161,314	1,161,314
Other noncurrent liabilities	-	13,747	13,747
Derivative instruments - interest rate swaps	-	7,002	7,002
Total Noncurrent Liabilities	-	1,182,063	1,182,063
Total Liabilities	34,704	1,323,232	1,357,936
NET POSITION			
Net investment in capital assets	-	3,595	3,595
Restricted by			
Revenue bond indenture	-	222,394	222,394
Enabling legislation	-	7,601	7,601
Program requirements	21,810	-	21,810
Unrestricted	-	61,598	61,598
Net Position	$ 21,810	$ 295,188	$ 316,998

See Notes to Financial Statements.

Kentucky Housing Corporation
Corporation-Wide Statement of Activities
Year Ended June 30, 2014
(Dollars in thousands)

Functions/Activities	Direct Expenses: Grants	Direct Expenses: Operating	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenues and Changes in Net Position: Governmental Activities	Net (Expense) Revenues and Changes in Net Position: Business-Type Activities	Net (Expense) Revenues and Changes in Net Position: Total
Governmental Activities							
Rental assistance	$ 147,219	$ 4,731	$ 6,619	$ 147,219	$ 1,888	$ -	$ 1,888
HOME program	12,508	935	935	12,508	-	-	-
Weatherization	1,916	409	409	1,916	-	-	-
Unemployment Bridge	23,799	3,221	3,221	17,124	(6,675)	-	(6,675)
Other federal and state housing programs	19,124	851	851	23,298	4,174	-	4,174
Total Governmental Activities	204,566	10,147	12,035	202,065	(613)	-	(613)
Business-Type Activities							
Administrative	1,466	10,120	382	-	-	(11,204)	(11,204)
Bond financed loan programs	-	57,320	68,545	-	-	11,225	11,225
Loan servicing	-	6,005	7,492	-	-	1,487	1,487
Other loan and housing credit programs	-	6,936	14,972	-	-	8,036	8,036
Total Business-Type Activities	1,466	80,381	91,391	-	-	9,544	9,544
Total Activities	$ 206,032	$ 90,528	$ 103,426	$ 202,065	(613)	9,544	8,931
Transfers					(1,888)	1,888	-
Change in Net Position					(2,501)	11,432	8,931
Net Position, Beginning of Year					24,311	283,756	308,067
Net Position, End of Year					$ 21,810	$ 295,188	$ 316,998

See Notes to Financial Statements.

Kentucky Housing Corporation
Balance Sheet – Governmental Funds
June 30, 2014
(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	$ 4,163	$ 9,530	$ -	$ -	$ 1,631	$ 101	$ 26,300	$ 41,725
Investment securities	4,378	-	-	-	-	8,598	369	13,345
Accounts receivable and other assets	-	870	-	513	-	-	1,042	2,425
Interfund accounts	-	(92)	-	(184)	(358)	-	(347)	(981)
Total Current Assets	8,541	10,308	-	329	1,273	8,699	27,364	56,514
Noncurrent Assets								
Program loans	13,019	98,097	57,842	-	-	64,741	2,831	236,530
Less loan loss provision	(13,019)	(98,097)	(57,842)	-	-	(64,741)	(2,831)	(236,530)
Total Noncurrent Assets	-	-	-	-	-	-	-	-
Total Assets	$ 8,541	$ 10,308	$ -	$ 329	$ 1,273	$ 8,699	$ 27,364	$ 56,514
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	$ -	$ 10,308	$ -	$ 329	$ 1,273	$ 2,918	$ 19,876	$ 34,704
FUND BALANCE								
Restricted by program requirements	8,541	-	-	-	-	5,781	7,488	21,810
Total Liabilities and Fund Balance	$ 8,541	$ 10,308	$ -	$ 329	$ 1,273	$ 8,699	$ 27,364	$ 56,514

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Revenues, Expenditures and Changes in Fund Net Position – Governmental Funds
Year Ended June 30, 2014
(Dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Weatherization Assistance	Rental Assistance	Unemployment Bridge	Other Housing Funds	Combined Totals
Revenues							
Federal and state administrative fees	$ -	$ 935	$ 409	$ 6,619	$ 3,221	$ 851	$ 12,035
Pass-through grant revenues	5,412	12,508	1,916	147,219	17,124	17,886	202,065
Total Revenues	5,412	13,443	2,325	153,838	20,345	18,737	214,100
Expenditures							
General and administrative	-	935	409	4,731	3,221	851	10,147
Pass-through grant expenditures	5,034	12,508	1,916	147,219	23,799	14,090	204,566
Total Expenditures	5,034	13,443	2,325	151,950	27,020	14,941	214,713
Revenues in Excess of / (Less Than) Expenditures	378	-	-	1,888	(6,675)	3,796	(613)
Interfund Transfers	-	-	-	(1,888)	-	-	(1,888)
Change in Fund Balance	378	-	-	-	(6,675)	3,796	(2,501)
Fund Balance, Beginning of Year	8,163	-	-	-	12,456	3,692	24,311
Fund Balance, End of Year	$ 8,541	$ -	$ -	$ -	$ 5,781	$ 7,488	$ 21,810

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Net Position – Proprietary Funds
June 30, 2014
(Dollars in thousands)

ASSETS	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Current Assets				
Cash and cash equivalents	$ 56,611	$ 5,132	$ 1,025	$ 62,768
Investment securities	2,726	144,600	564	147,890
Mortgage-backed securities	-	15,755	-	15,755
Housing mortgage loans held for sale	14,269	-	-	14,269
Housing mortgage loans	2,540	27,893	-	30,433
Housing construction loans	2,334	-	6,079	8,413
Other loans	766	-	-	766
Accounts receivable and other assets	8,689	-	-	8,689
Interfund accounts	1,086	(105)	-	981
Total Current Assets	89,021	193,275	7,668	289,964
Noncurrent Assets				
Investment securities	-	126,864	-	126,864
Mortgage-backed securities	-	435,209	-	435,209
Housing mortgage loans	65,352	674,126	-	739,478
Other loans	9,093	-	-	9,093
Real estate owned and related receivables	-	5,563	-	5,563
Capital assets	3,595	-	-	3,595
Other noncurrent assets	1,869	-	-	1,869
Total Noncurrent Assets	79,909	1,241,762	-	1,321,671
Total Assets	168,930	1,435,037	7,668	1,611,635
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of derivatives - interest rate swaps	-	6,785	-	6,785

(Continued)

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Net Position – Proprietary Funds
June 30, 2014
(Dollars in thousands)

LIABILITIES	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Current Liabilities				
Lines of credit	$ 39,825	$ -	$ -	$ 39,825
Accounts payable and other liabilities	1,406	383	-	1,789
Accrued interest payable	-	21,624	-	21,624
Escrows and project reserves	49,676	-	-	49,676
Revenue bonds, due within one year	-	28,255	-	28,255
Total Current Liabilities	90,907	50,262	-	141,169
Noncurrent Liabilities				
Revenue bonds, due after one year	-	1,161,314	-	1,161,314
Other noncurrent liabilities	12,830	850	67	13,747
Derivative instruments - interest rate swaps	-	7,002	-	7,002
Total Noncurrent Liabilities	12,830	1,169,166	67	1,182,063
Total Liabilities	103,737	1,219,428	67	1,323,232
NET POSITION				
Invested in capital assets	3,595	-	-	3,595
Restricted by				
Revenue bond indenture	-	222,394	-	222,394
Enabling legislation	-	-	7,601	7,601
Unrestricted	61,598	-	-	61,598
Net Position	$ 65,193	$ 222,394	$ 7,601	$ 295,188

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
Year Ended June 30, 2014
(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	$ 2,642	$ 38,246	$ 163	$ 41,051
Mortgage-backed securities	1	22,336	-	22,337
Marketable securities	-	2,954	-	2,954
Net (decrease) in fair value of marketable securities	-	(1,473)	-	(1,473)
Net increase in fair market value of swaps	-	304	-	304
Gains on sales of mortgage-backed and marketable securities	10,721	4,235	-	14,956
Fees, charges and other income	10,162	1,100	-	11,262
Total Operating Revenues	23,526	67,702	163	91,391
Operating Expenses				
Interest on revenue bonds and notes payable	345	48,930	-	49,275
Provision for losses on loans	921	848	(35)	1,734
General and administrative	20,389	(166)	-	20,223
Housing assistance grants	1,466	-	-	1,466
Mortgage loan servicers' fees	13	2,527	-	2,540
Loan origination costs	5,182	452	-	5,634
Debt issuance costs	-	975	-	975
Total Operating Expenses	28,316	53,566	(35)	81,847
Operating Income (Loss)	(4,790)	14,136	198	9,544
Interfund Transfers	7,759	(5,871)	-	1,888
Change in Net Position	2,969	8,265	198	11,432
Net Position, Beginning of Year	62,224	214,129	7,403	283,756
Net Position, End of Year	$65,193	$ 222,394	$ 7,601	$ 295,188

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2014
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 2,647	$ 38,246	$ 90	$ 40,983
Gain on sales of loans held for sale	9,924	-	-	9,924
Fees, charges and other income	10,699	-	-	10,699
Personnel costs	(14,731)	-	-	(14,731)
Operating expenses	(10,397)	(2,979)	-	(13,376)
Housing assistance grants	(1,466)	-	-	(1,466)
Fundings of housing mortgage loans	(244,138)	(23,139)	-	(267,277)
Repayments on housing mortgage loans	31,824	93,502	-	125,326
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	209,428	-	-	209,428
Net changes in housing construction loans	(1,196)	-	(3,121)	(4,317)
Other, net	(953)	(315)	800	(468)
Net Cash Provided By (Used In) Operating Activities	(8,359)	105,315	(2,231)	94,725
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit and issuance of revenue bonds	90,488	101,548	-	192,036
Payments for debt issuance costs	-	(1,183)	-	(1,183)
Principal payments on lines of credit and revenue bonds	(90,693)	(344,530)	-	(435,223)
Interest payments on revenue bonds and lines of credit	(345)	(55,284)	-	(55,629)
Changes in escrows and project reserves	(1,909)	-	-	(1,909)
Interfund transfers	7,759	(5,871)	-	1,888
Net Cash Provided By (Used In) Noncapital Financing Activities	5,300	(305,320)	-	(300,020)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(163)	-	-	(163)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(329,505)	(1,067,327)	-	(1,396,832)
Sales of investments and mortgage-backed securities	329,866	1,238,298	-	1,568,164
Gain on sales of investments and mortgage-backed securities	-	4,235	-	4,235
Interest received on investments and mortgage-backed securities	1	25,859	-	25,860
Net Cash Provided By (Used In) Investing Activities	362	201,065	-	201,427
Net Increase (Decrease) in Cash and Cash Equivalents	(2,860)	1,060	(2,231)	(4,031)
Cash and Cash Equivalents, Beginning of Year	59,471	4,072	3,256	66,799
Cash and Cash Equivalents, End of Year	$ 56,611	$ 5,132	$ 1,025	$ 62,768

See Notes to Financial Statements.

(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)	$ (4,790)	$ 14,136	$ 198	$ 9,544
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(797)	-	-	(797)
Provision for losses on loans	921	848	(35)	1,734
Debt issuance costs	-	975	-	975
Amortization of intangible asset	376	-	-	376
Depreciation expense	395	-	-	395
Interest expense on revenue bonds and lines of credit	345	48,930	-	49,275
Interest income on mortgage-backed securities	1	(22,336)	-	(22,335)
Interest income on marketable securities	-	(2,954)	-	(2,954)
Net (increase) decrease in fair value of marketable securities	-	1,473	-	1,473
Net (increase) decrease in fair value of swaps	-	(304)	-	(304)
Gain on sale of mortgage-backed and marketable securities	-	(4,235)	-	(4,235)
Other income	-	(1,266)	-	(1,266)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(244,138)	(23,139)	-	(267,277)
Repayments on housing mortgage loans	31,824	93,502	-	125,326
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	209,428	-	-	209,428
Housing construction loans	(1,196)	-	(3,121)	(4,317)
Other, net	(728)	(315)	727	(316)
Net Cash Provided By (Used In) Operating Activities	$ (8,359)	$ 105,315	$ (2,231)	$ 94,725

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 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 primarily makes first mortgage loans to finance single-family and multi-family housing units within Kentucky. Loans are made primarily to first-time home buyers meeting certain low-to-moderate income guidelines. Substantially all assets 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 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 position 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 governmental and business-type activities. The governmental activities reflect the administration of the various programs for the Commonwealth and the federal government. The business-type activities include single and multi-family loan programs and other lender services. The Corporation follows GASB pronouncements as codified under GASB 62.

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.

Governmental Funds: The 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"). Revenues considered susceptible to accrual are those revenues that are both measurable and available, usually grant revenue. In substance, "available" means that the item is a resource that can be used to finance the governmental operations within a 60 day period.

(Continued)

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

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.

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 issued 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.

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 recent 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. The fund balance of the Unemployment Bridge program is restricted for use only by this program and if any fund balance exists at the end of the program's duration such balance will be returned to the U.S. Treasury.

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

(Continued)

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

Proprietary Funds: Financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the loan and other lender services are presented as proprietary funds. 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, including the Secondary Market Mortgage Purchase program. Fund net position is 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. Fund net position is restricted as to use by the terms of the Housing Revenue Bond Indenture.

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. Fund net position is restricted to use within the fund by the enabling legislation that created the fund. This fund was created by the same enabling legislation as the Corporation as previously disclosed in Note A.

Cash and Cash Equivalents: Cash consists of cash held by depository institutions and a trustee in the Corporation's name. The Corporation's cash and cash equivalents include money market funds utilized for operations, not for investment policy purposes.

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 fund net position.

Historically, the Corporation securitized 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 ownership of the securities and 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 C). The Corporation also securitized a large portion of its government insured housing mortgage loans into mortgage-backed securities through the Government National Mortgage Association ("GNMA"). The Corporation also retains ownership of the securities and retains the servicing rights to the 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. Housing mortgage loans held for sale are recorded at the lower of cost or fair value.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.

(Continued)

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

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 a 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 a borrower's financial condition is such that collection of interest is doubtful.

Mortgage Banking Revenue: Mortgage banking revenue includes revenue derived from mortgages originated and subsequently sold, with servicing retained. The primary components are gains and losses on mortgage sales and servicing revenue.

Mortgage Servicing Rights: Mortgage Servicing Rights ("MSRs") are capitalized at fair value as separate assets when loans are sold and servicing is retained. The Corporation determines the fair value by estimating the present value of the assets' future cash flows.

Real Estate Owned and Related Receivables: Real estate owned arises from foreclosures or other mortgage default-related actions on properties pledged as collateral on mortgage loans. Real estate owned is recorded at the lesser of unpaid principal balance plus accrued interest on the loans as of the date the loans became real estate owned, plus subsequent expenses incurred less any insurance or other loan related payments received or fair market value less costs to sell. Because a substantial majority of all such loans are guaranteed, based on the Corporation's past experience, it is anticipated that the Corporation will recover a majority of the unpaid principal balances of the loans through proceeds arising from the sale of such property or receipt of applicable guaranteed proceeds.

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 position. 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 estimated useful lives of the assets:

Buildings	30 to 40 years
Equipment	3 to 10 years

Net Position: Net Position is displayed in three components as follows:

- *Invested in Capital Assets, Net of Related Debt* - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* - This consists of balances associated with activities that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. For the government-wide financial statements, net position is reported as restricted when constraints placed on net asset use are either: (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This consists of balances that do not meet the definition of "restricted" or "invested in capital assets."

(Continued)

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

Governmental Funds Net Position 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 activities are reflected as restricted; therefore, the Corporation has not adopted a written policy regarding the classification of governmental fund net position categories.

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 position.

Debt Issuance Costs and Bond Premiums and Discounts: Debt issuance costs are expensed in the year the debt is incurred. Bond premiums and discounts on revenue bonds are 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 Refundings: The Corporation accounts for debt refundings in accordance with GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

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 and interest earned on unspent grant proceeds. The Corporation's policy is to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

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 carry out its statutory purpose.

Origination and Commitment Fees: Origination fees relating to permanently financed multi-family loans are recognized in the year of origination. Commitment fees charged to mortgage originators to reserve funds for permanently financed single-family loans are recognized in the period of exercise.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(Continued)

N**ote B--Summary of Significant Accounting Policies (**Continued)

Implementation of Accounting Standards: The Corporation has determined that GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for the fiscal year ended June 30, 2014, will have no effect on its financial statements.

GASB standards that are under evaluation include:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* is effective for the fiscal year ending June 30, 2015, and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* is effective for the year ending June 30, 2015. The Corporation has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

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, 2014, the carrying amount of the Corporation's cash and cash equivalents was $104,493 and the bank balance was $100,274. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $100,274 bank balance, $32,409 was covered by federal depository insurance and $67,865 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.

Cash and cash equivalents of approximately $95,500 are restricted for government programs, payment of bond principal and interest, payment of principal and interest on mortgage-backed securities and for payment of taxes, insurance and other escrowed items on the Corporation's serviced loans.

(Continued)

(Dollars in thousands)

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

Investment and Mortgage-Backed Securities: At June 30, 2014 the Corporation had the following:

Investment Type		**Fair Value**	**Effective Duration (in Years)**
U.S. Treasurys	$	11,719	4.37
U.S. government-sponsored enterprises		115,144	5.64
Mortgage-backed securities		450,964	2.66
Certificates of deposit		346	1.13
Money market funds		160,890	0.00
Total Investment and Mortgage-Backed Securities		739,063	
Less amounts shown as current assets		176,990	
Noncurrent Investment and Mortgage-Backed Securities	$	562,073	
Portfolio effective duration			2.57

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.

(Dollars in thousands)

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

Credit Risk: The Corporation's investment policy defines the types of investments available to the Corporation. Investments, including the underlying securities for money market funds, 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, 2014:

Investment Type	**Moody's Rating**
Mortgage-backed securities	Aaa
U.S. Treasurys	Aaa
U.S. government-sponsored enterprises	Aaa
Certificates of deposit	Not rated
Money market funds	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, 2014 consist of the following:

Issuer	**Fair Value**	**Percentage of Portfolio**
GNMA	$ 324,368	44%
Dreyfus	160,140	22%
Fannie Mae	126,597	17%
U.S. government-sponsored enterprises	115,144	16%

The GNMA investments consist of mortgage-backed securities backed by federally insured or guaranteed single-family mortgage loans originated by the Corporation and then formed into securities, and had a book value of $299,470 as of June 30, 2014. The performance of the GNMA securities is guaranteed by GNMA, though as servicer of the GNMA pools, the Corporation is exposed to minimal residual risk on the underlying loans in the event, that upon default of a loan, the insurance or guarantee received is insufficient to fully reimburse the Corporation.

The Fannie Mae investments consist of mortgage-backed securities backed by loans originated by the Corporation and then formed into securities, and had a book value of $113,774 as of June 30, 2014. Although performance of the Fannie Mae securities is guaranteed by Fannie Mae, the Corporation has retained full recourse risk with respect to $14,938 of the underlying loans and recourse on an additional $14,079 of loans subject to a stop loss agreement with Fannie Mae. The remaining $84,757 of underlying loans is without recourse to the Corporation.

(Continued)

(Dollars in thousands)

Note D--Housing Mortgage Loans

At June 30, 2014, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$ 666,355
Multifamily (B)	34,559
Total Housing Revenue Bond Funds	700,914
General Funds (C)	73,061
Total Principal	773,975
Add accrued interest receivable on loans	3,173
Total Principal and Accrued Interest	777,148
Less allowance for loan losses	7,237
Net Housing Mortgage Loans	769,911
Less amount shown as current assets	30,433
Noncurrent Housing Mortgage Loans	$ 739,478

Additional information related to loans includes:

Note (A) Single-family includes $637,954 in federally insured or guaranteed loans, $17,338 of non-insured loans with initial loan-to-value ratios less than 90%, and $11,063 of loans covered by private mortgage insurance.

Note (B) Multifamily includes $29,629 in federally insured or guaranteed loans and $4,930 in non-insured loans.

Note (C) General Funds include $22,471 in federally insured or guaranteed loans and $50,590 in non-insured loans.

Note E--Other Loan Related Activities

Housing Mortgage Loans Held for Sale: These loans are first mortgage loans pending sale into the secondary market, are secured by single family residences and are recorded at the lower of cost or fair value.

Housing Construction Loans: These 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 $888.

Other Loans: These 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 $1,431.

Real Estate Owned and Related Receivables: This asset arises from foreclosures or other mortgage default-related actions on properties pledged as collateral on mortgage loans.

(Continued)

(Dollars in thousands)

Note E--Other Loan Related Activities (Continued)

Loan Commitments: At June 30, 2014, the Corporation is committed to make single-family mortgage loans and housing construction loans totaling $38,824 and $3,804, respectively. The Corporation had $44,970 in outstanding commitments to sell single-family loans at June 30, 2014.

Note F-- Loan Servicing

In addition to the GNMA and Fannie Mae MBS portfolios that the Corporation services for its own indenture (See Note C), the Corporation was servicing the following for other investors at June 30, 2014:

Servicing Type	**Number of Loans**	**Amounts**
GNMA MBS	3,897	$354,878
Fannie Mae MBS	534	36,275
Fannie Mae whole loans	1,099	132,710
	5,530	$523,863

Included in the Fannie Mae MBS totals are loans totaling $15,767 on which the Corporation has retained default risk on the underlying loans. Included in the Fannie Mae whole loans totals are loans totaling $43,521 for which the Corporation has retained the default risk for the twelve months following the origination date.

Servicing rights totaling $1,869 are recorded at fair value and are amortized in proportion to, and over the period of, estimated servicing income. They are included in other assets.

Note G--Capital Assets

Major classes of capital assets at June 30, 2014 and activity during the year follows:

Business-Type Activities	**Balance July 1, 2013**	**Additions**	**Retirements and Dispositions**	**Balance June 30, 2014**
Land	$ 1,089	$ -	$ -	$ 1,089
Buildings	5,036	-	-	5,036
Equipment	4,968	163	(255)	4,876
Less accumulated depreciation	(7,266)	(395)	255	(7,406)
Net Capital Assets	$ 3,827	$ (232)	$ -	$ 3,595

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

(Continued)

(Dollars in thousands)

Note H--Lines of Credit

The Corporation's lines of credit at June 30, 2014 and activity during the year follows:

Business-Type Activities	Balance July 1, 2013	Borrowings	Repayments and Dispositions	Balance June 30, 2014
Loan Warehousing Line of Credit 1	$ 34,030	$ 37,488	$ 39,193	$ 32,325
Loan Warehousing Line of Credit 2	6,000	53,000	51,500	7,500
	$ 40,030	$ 90,488	$ 90,693	$ 39,825

Loan Warehousing Line of Credit 1 ("Line 1") is used 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 market or to other investors. The line provides for borrowings up to $40,000, bears interest at one-month LIBOR plus 53 basis points and matures June 30, 2015. The rate as of June 30, 2014 was .85%. Up to $30,000 of Line 1 may also be used to purchase certain FHA and RHS loans pending receipt of insurance/guarantee claim payments from the respective agencies.

Loan Warehousing Line of Credit 2 is also used for the purchase of mortgage loans pending issuance of new Housing Revenue Bonds or sale to the secondary market or to other investors. This line provides for borrowings up to $25,000, bears interest at one-month LIBOR plus 60 basis points and, with its recent renewal, matures August 15, 2015.

(Continued)

(Dollars in thousands)

Note I--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2014 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2013	Issued	Repaid/ Retired	Balance June 30, 2014	Amount Due Within One Year
Housing Revenue Bonds:						
2003 Series D:						
2015-2034, 4.25% to 5.10%	$ 45,000	$ 20,915	$ -	$ 20,915	$ -	$ -
2003 Series F:						
2015-2033, 3.415% to 4.95%	155,140	53,880	-	53,880	-	-
2003 Series G:						
2015-2034, 4.00% to 4.95%	45,000	21,030	-	21,030	-	-
2004 Series A:						
2015-2018, 4.15% to 4.55%	17,175	8,210	-	8,210	-	-
2004 Series B:						
2018-2025, 5.00%	22,825	3,470	-	3,470	-	-
2004 Series D:						
2015-2025, 4.45% to 4.90%	55,000	24,265	-	9,785	14,480	870
2004 Series F:						
2015-2026, 4.20% to 4.60%	45,000	21,940	-	8,210	13,730	540
2004 Series G:						
2015-2017, 3.85% to 4.05%	10,225	3,405	-	1,455	1,950	600
2004 Series H:						
2017-2026, 4.50% to 4.70%	29,775	12,525	-	6,325	6,200	-
2005 Series A:						
2015-2032, 4.10% to 4.75%	18,670	11,035	-	1,405	9,630	455
2005 Series B:						
2015-2033, variable	16,330	6,280	-	815	5,465	50
2005 Series C:						
2015-2031, 3.85% to 4.50%	22,215	14,950	-	1,540	13,410	1,030
2005 Series D:						
2019-2027, 4.60%	37,785	13,665	-	2,530	11,135	-
2005 Series E:						
2015-2034, 4.10% to 5.00%	80,000	40,510	-	4,910	35,600	1,355
2005 Series F:						
2015-2016, 4.74% to 4.78%	20,000	5,075	-	2,365	2,710	2,380
2005 Series G:						
2016-2031, 4.20% to 5.00%	37,390	16,475	-	2,235	14,240	-
2005 Series H:						
2017-2037, variable	21,925	21,925	-	-	21,925	-
2005 Series I:						
2015-2017, 5.04%	22,940	6,970	-	2,330	4,640	2,300
2005 Series J:						
2015-2018, 4.10%	8,775	710	-	710	-	-
2005 Series K:						
2017-2030, 5.00%	8,040	510	-	510	-	-
2005 Series L:						
2017-2037, variable	20,000	20,000	-	1,770	18,230	-
2006 Series A:						
2015-2031, 4.10% to 4.75%	8,775	5,650	-	1,685	3,965	50

(Continued)

(Dollars in thousands)

Note I--Revenue Bonds and Other Noncurrent Liabilities (Continued)

	Original Face Amount	Balance July 1, 2013	Issued	Repaid/ Retired	Balance June 30, 2014	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2006 Series B:						
2016-2037, 4.80% to 5.25%	15,420	4,535	-	1,390	3,145	-
2006 Series C:						
2024-2037, variable	15,425	15,425	-	-	15,425	-
2006 Series D:						
2015-2016, 5.22% to 5.24%	20,000	4,665	-	2,310	2,355	2,280
2006 Series E:						
2015-2037, 4.20% to 4.85%	27,140	16,690	-	5,315	11,375	140
2006 Series F:						
2017-2030, variable	20,540	20,540	-	-	20,540	-
2006 Series H:						
2017-2037, 4.65% to 5.00%	41,495	26,505	-	5,145	21,360	-
2006 Series I:						
2019-2032, variable	23,750	23,750	-	-	23,750	-
2006 Series K:						
2018-2023, 4.30% to 4.55%	9,585	1,035	-	80	955	-
2006 Series L:						
2033-2037, 5.50%	19,085	2,760	-	2,090	670	-
2006 Series M:						
2017-2033, variable	21,000	21,000	-	-	21,000	-
2006 Series O:						
2017-2036, variable	29,035	16,660	-	1,140	15,520	-
2006 Series P:						
2015-2035, 3.90% to 4.60%	8,210	8,210	-	60	8,150	85
2006 Series Q:						
2015-2032, 4.40% to 4.85%	41,790	23,255	-	5,000	18,255	365
2006 Series R:						
2017-2038, 5.816%	21,700	2,875	-	1,340	1,535	-
2006 Series S:						
2015-2037, 5.88%	15,000	3,285	-	660	2,625	70
2006 Series T:						
2017-2038, variable	23,300	11,310	-	2,855	8,455	-
2006 Series U:						
2015-2038, 4.35% to 4.90%	45,000	27,425	-	5,140	22,285	405
2006 Series W:						
2017-2038, variable	38,380	15,845	-	3,755	12,090	-
2007 Series A:						
2015-2038, 4.05% to 4.65%	39,545	31,245	-	2,265	28,980	500
2007 Series B:						
2019-2038, 5.58% to 5.58%	38,000	7,065	-	2,180	4,885	-
2007 Series C:						
2015-2038, 4.35% to 4.80%	50,000	39,235	-	1,935	37,300	430
2007 Series D:						
2018-2038, 5.745%	30,000	7,805	-	2,520	5,285	-

(Continued)

(Dollars in thousands)

Note I--Revenue Bonds and Other Noncurrent Liabilities (Continued)

	Original Face Amount	Balance July 1, 2013	Issued	Repaid/ Retired	Balance June 30, 2014	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2007 Series E:						
2015-2038, 4.20% to 4.85%	45,000	37,140	-	1,185	35,955	770
2007 Series F:						
2018-2038, 5.53%	30,000	3,545	-	2,170	1,375	-
2007 Series G:						
2016-2035, 4.00% to 4.75%	6,285	6,285	-	10	6,275	-
2007 Series H:						
2015-2028, 4.40% to 4.90%	34,965	17,135	-	3,595	13,540	360
2007 Series I:						
2018-2038, 5.77%	16,620	3,225	-	1,260	1,965	-
2007 Series J:						
2018-2038, variable	17,130	14,135	-	1,395	12,740	-
2007 Series K:						
2017-2035, 4.15% to 5.00%	7,405	7,405	-	20	7,385	-
2007 Series L:						
2015-2031, 4.55% to 5.50%	25,485	15,930	-	14,015	1,915	105
2007 Series M:						
2019-2037, 6.06%	27,000	6,245	-	2,070	4,175	-
2007 Series N:						
2015-2033, 4.30% to 5.00%	40,000	20,400	-	3,135	17,265	330
2007 Series O:						
2015-2038, variable	10,000	7,395	-	1,020	6,375	130
2008 Series A:						
2015-2033, 3.90% to 5.25%	39,270	24,425	-	13,640	10,785	325
2008 Series C:						
2015-2034, 3.75% to 5.00%	14,230	14,115	-	3,165	10,950	105
2008 Series D:						
2015-2024, 5.35%	35,770	10,240	-	10,240	-	-
2008 Series E:						
2015-2029, 3.60% to 5.125%	60,000	32,240	-	9,700	22,540	730
2008 Series F:						
2020-2037, 5.625%	10,000	2,440	-	2,050	390	-
2009 Series B:						
2015-2040, 2.60% to 5.15%	60,000	48,570	-	5,180	43,390	840
2009 Series C, Sub series C-3:						
2028-2042, 3.55%	30,000	27,390	-	1,820	25,570	-
2009 Series C, Sub series C-4:						
2028-2042, 2.52%	30,000	29,770	-	360	29,410	-
2010 Series A:						
2015-2027, 2.15% to 5.00%	40,000	30,110	-	7,845	22,265	1,015
2010 Series B:						
2015-2027, 2.20% to 5.00%	40,000	31,700	-	7,855	23,845	1,035
2010 Series C:						
2028-2034, 4.375% to 4.625%	10,000	6,705	-	-	6,705	-
2010 Series D:						
2015-2026, 3.05% to 5.125%	46,000	36,300	-	4,870	31,430	1,470

(Continued)

(Dollars in thousands)

Note I--Revenue Bonds and Other Noncurrent Liabilities (Continued)

	Original Face Amount	**Balance July 1, 2013**	**Issued**	**Repaid/ Retired**	**Balance June 30, 2014**	**Amount Due Within One Year**
Housing Revenue Bonds-Continued						
2010 Series E:						
2021-2036, 3.625% to 4.75%	20,000	20,000	-	-	20,000	-
2011 Series A:						
2015-2028, 1.90% to 5.00%	20,000	16,825	-	3,045	13,780	515
2011 Series B:						
2015-2028, 1.45% to 4.25%	20,000	19,160	-	2,105	17,055	585
2012 Series A:						
2015-2034, 1.336% to 4.268%	187,755	169,750	-	17,860	151,890	3,835
2013 Series A:						
2041, 3.00%	52,940	52,475	-	5,650	46,825	-
2013 Series B:						
2041, 3.00%	54,920	54,700	-	4,800	49,900	-
2013 Series C:						
2015-2024, 0.74% to 3.522%	36,470	-	36,470	3,370	33,100	1,740
2013 Series D:						
2024-2033, 3.20% to 4.00%	49,410	-	49,410	8,005	41,405	-
2013 Series E:						
2016-2024, 1.00% to 3.20%	7,590	-	7,590	-	7,590	-
2013 Series F:						
2015-2016, 0.80% to 1.20%	2,200	-	2,200	890	1,310	460
2013 Series G:						
2024-2044, 4.00% to 4.375%	4,300	-	4,300	940	3,360	-
Total Housing Revenue Bonds	$2,472,130	1,430,270	$ 99,970	$ 344,530	1,185,710	$ 28,255
Unamortized premium		3,677			3,859	
Net Revenue Bonds		$ 1,433,947			$ 1,189,569	

As indicated in the above table, bond issues totaling $181,515 have variable rates 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).

The remarketing of variable rate bonds totaling $141,855 is supported by Standby Bond Purchase Agreements with other financial institutions which obligate those institutions to purchase the bonds in the event they cannot be remarketed in the capital markets. Surplus balances in the Fund Net Position of the Bond Debt Service Reserve Fund totaling $50,000 have been reserved to provide self-liquidity on the remaining $39,660 of outstanding variable rate bonds which will be utilized to retire those bonds in the event they cannot be remarketed in the capital markets.

The revenue bonds are collateralized by the underlying mortgages as well as mortgage-backed securities financed by the proceeds from the revenue bonds, and by the pledge of the principal and interest collections received from these mortgages and securities.

(Continued)

(Dollars in thousands)

Note I--Revenue Bonds and Other Noncurrent Liabilities (Continued)

As of June 30, 2014, aggregate debt service requirements of the Corporation's debt (fixed-rate and variable-rate) and net receipts/payments on associated interest rate swaps are as shown in the table below. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of the interest rate swaps will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the interest rate swaps will vary. Refer to Note J for further information on the interest rate swap agreements.

	Amortization of Principal	**Interest Expense**	**Net Swap Payments**	**Total Debt Service**
Fiscal years ending June 30,				
2015	$ 28,255	$ 40,926	$ 5,077	$ 74,258
2016	45,690	39,181	4,670	89,541
2017	48,830	37,773	4,351	90,954
2018	51,505	36,268	4,208	91,981
2019	53,815	34,567	4,098	92,480
Five years ending June 30,				
2020-2024	270,695	143,879	17,885	432,459
2025-2029	243,175	96,651	11,848	351,674
2030-2034	235,880	53,486	5,532	294,898
2035-2039	98,255	23,787	766	122,808
2040-2044	109,610	7,823	-	117,433
	$ 1,185,710	$ 514,341	$ 58,435	$ 1,758,486

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.

<u>Other Noncurrent Liabilities</u>: Other liabilities had the following activity during the year:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Other noncurrent liabilities	$ 14,286	$ 1,301	$ (1,840)	$ 13,747

(Dollars in thousands)

Note J--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. The ten swaps are cash flow hedges issued in conjunction with the business-type activities of the mortgage revenue bond program. None of the derivative instruments are considered investments.

As of June 30, 2014, nine of the ten swaps were determined to be effective hedges, while the 2006 W swap has been determined to be ineffective for the purposes of GASB 53. The effectively hedged swaps, which have a notional amount of $136,435, increased in fair value by $3,636 during the year ended June 30, 2014. This increase has been recorded as a reduction in Deferred Outflows of Resources on the Corporation-wide statement of net position. As of June 30, 2014, the aggregate balance of Deferred Outflows of resources attributable to effective swap hedges is $6,785. The ineffective swap, which has a notional amount of $6,105, also increased in fair value by $304 during the year ended June 30, 2014. This increase is recorded as investment revenue for the year ended June 30, 2014.

The aggregate fair value of all swaps, totaling $7,002, is reflected with noncurrent liabilities on the statements of net position.

Objectives: 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	$ 5,660	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	$ 4,875	1/1/2017	5.700%	100% 1M LIBOR	N/A
2006 Series T	9/27/2006	$ 23,300	$ 3,260	1/1/2016	5.337%	100% 1M LIBOR	N/A
2006 Series W	11/29/2006	$ 38,380	$ 6,105	1/1/2016	5.318%	100% 1M LIBOR	N/A

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

(Continued)

Note J--Interest Rate Swap Agreements (Continued)

Risks: *Credit risk* is the risk that a counterparty will not fulfill its obligation. As of June 30, 2014, the swaps had a negative fair value of $7,002. 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. (Baa2/A-/A) serves as the counterparty for nine of KHC's derivative instruments and accounts for $136,435 of the total notional amount outstanding for all swaps. Furthermore, the derivative instruments are guaranteed by Merrill Lynch Derivative Products AG, which is rated Aa3/A+/NR.

- UBS AG (A2/A/A) serves as the counterparty for the remaining swap and accounts for $6,105 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.

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.

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 dates of the debt associated with these swaps are January 2036, July 2037, and July 2037, respectively.

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 a material market-access risk.

Foreign currency risk is the risk that the Corporation may have fluctuations in currency exchanges. The Corporation does not have any foreign currency transactions.

(Continued)

Note K--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, 2014, conduit debt obligations have been issued for 27 multi-family projects totaling approximately $202,313. 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 L--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 participants are required to contribute 5% or 6% of their annual covered salaries, dependent upon their beginning dates of participation. The Corporation is required to contribute at a rate determined by the state legislature, which is based on an actuarially determined rate. This was 26.79% and 23.61% for the years ended June 30, 2014 and 2013, respectively. For fiscal year ending June 30, 2015, the rate increased to 38.77%. The contribution requirements of Plan participants and the Corporation may be amended by the Kentucky Retirement System Board of Trustees and the state legislature. The Corporation's required contributions to KERS for the years ended June 30, 2014, 2013 and 2012 were $3,566, $3,274 and $2,872, respectively, and were fully paid to the Plan.

In March 2013, in response to the underfunded status of the Plan, Senate Bill 2 was passed by the Kentucky legislature significantly altering the pension benefits provision for future hires and significantly increasing the annual funding requirements of all Plan participating employers. The projected funding shortfall was placed on an actuarially determined thirty year full funding schedule with projected annual contribution rates payable by Plan participating employers increasing by approximately 12% of creditable compensation beginning July 1, 2014 and remaining at that level for the foreseeable future. In the case of the Corporation, based on its present payroll, the increase will be approximately $1,500.

(Continued)

Note M--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 advance-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 N--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, 2014. Settlements have not exceeded insurance coverage.

Note O--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 25, 2014, the date the financial statements were issued.

In July 2014, the Corporation successfully completed the economic refunding or redemption in their entirety the Series 2004 D, F, G and H and Series 2005 C, D and E bonds, with the issuance of Series 2014 A bonds in the amount of $61,445 and from the proceeds of the sale of related program assets totaling $35,060. These bonds have interest rates ranging from 0.25% to 4.3% and maturity dates ranging from January 1, 2015 to January 1, 2034.

Note P--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 grantors' 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.

Supplementary Combining Information
Housing Revenue Bond Funds

Kentucky Housing Corporation
Combining Statement of Net Position
Housing Revenue Bond Funds
Year Ended June 30, 2014
(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	$ 5,132	$ -	$ -	$ -	$ -	$ -	$ 5,132
Investment securities	24,351	9,899	24,520	14,644	3,775	67,411	144,600
Mortgage-backed securities	14,929	-	-	826	-	-	15,755
Housing mortgage loans	25,853	-	-	-	2,040	-	27,893
Interfund accounts	(19,283)	13,479	5,585	-	114	-	(105)
Total Current Assets	50,982	23,378	30,105	15,470	5,929	67,411	193,275
Noncurrent Assets							
Investment securities	-	-	-	126,864	-	-	126,864
Mortgage-backed securities	412,397	-	-	22,812	-	-	435,209
Housing mortgage loans	627,589	-	-	-	46,537	-	674,126
Real estate owned and related receivables	5,563	-	-	-	-	-	5,563
Total Noncurrent Assets	1,045,549	-	-	149,676	46,537	-	1,241,762
Total Assets	1,096,531	23,378	30,105	165,146	52,466	67,411	1,435,037
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated decrease in fair value of derivatives - interest rate swaps	-	-	6,785	-	-	-	6,785
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	383	-	-	-	-	-	383
Accrued interest payable	-	-	21,624	-	-	-	21,624
Revenue bonds - current portion	28,255	-	-	-	-	-	28,255
Total Current Liabilities	28,638	-	21,624	-	-	-	50,262
Noncurrent Liabilities							
Revenue bonds	1,161,314	-	-	-	-	-	1,161,314
Other noncurrent liabilities	850	-	-	-	-	-	850
Derivative instruments - interest rate swaps	-	-	7,002	-	-	-	7,002
Total Noncurrent Liabilities	1,162,164	-	7,002	-	-	-	1,169,166
Total Liabilities	1,190,802	-	28,626	-	-	-	1,219,428
FUND NET POSITION							
Restricted by revenue bond indenture	$ (94,271)	$ 23,378	$ 8,264	$ 165,146	$ 52,466	$ 67,411	$ 222,394

See Independent Auditor's Report.

Kentucky Housing Corporation
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Housing Revenue Bond Funds
Year Ended June 30, 2014
(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	$ 37,432	$ -	$ -	$ -	$ 814	$ -	$ -	$ 38,246
Mortgage-backed securities	21,065	-	-	1,271	-	-	-	22,336
Marketable securities	16	2	56	2,877	1	1	1	2,954
Net (decrease) in fair value of marketable securities	(2,496)	-	-	1,023	-	-	-	(1,473)
Net increase in fair market value of swaps	-	-	304	-	-	-	-	304
Gain on sale of mortgage-backed and marketable securities	4,189	-	-	46	-	-	-	4,235
Other income	1,100	-	-	-	-	-	-	1,100
Total Operating Revenues	61,306	2	360	5,217	815	1	1	67,702
Operating Expenses								
Interest on revenue bonds	-	-	48,930	-	-	-	-	48,930
Provision for losses on loans	848	-	-	-	-	-	-	848
General and administrative	(166)	-	-	-	-	-	-	(166)
Mortgage loan servicers' fees	2,374	-	-	-	153	-	-	2,527
Loan origination costs	161	-	-	-	291	-	-	452
Debt issuance costs	975	-	-	-	-	-	-	975
Total Operating Expenses	4,192	-	48,930	-	444	-	-	53,566
Operating Income (Loss)	57,114	2	(48,570)	5,217	371	1	1	14,136
Interfund Transfers	(21,051)	(17,372)	9,726	(25,000)	10,083	(1)	37,744	(5,871)
Change in Fund Net Position	36,063	(17,370)	(38,844)	(19,783)	10,454	-	37,745	8,265
Fund Net Position, Beginning of Year	(130,334)	40,748	47,108	184,929	42,012	-	29,666	214,129
Fund Net Position, End of Year	$ (94,271)	$ 23,378	$ 8,264	$ 165,146	$ 52,466	$ -	$ 67,411	$ 222,394

See Independent Auditor’s Report.

Kentucky Housing Corporation
Combining Statement of Cash Flows – Housing Revenue Bond Funds
Year Ended June 30, 2014
(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	$ 37,432	$ -	$ -	$ -	$ 814	$ -	$ -	$ 38,246
Operating expenses	(2,535)	-	-	-	(444)	-	-	(2,979)
Fundings of housing mortgage loans	(11,401)	-	-	-	(11,738)	-	-	(23,139)
Repayments on housing mortgage loans	90,199	-	-	-	3,303	-	-	93,502
Other, net	(5,473)	4,187	846	-	125	-	-	(315)
Net Cash Provided By (Used In) Operating Activities	108,222	4,187	846	-	(7,940)	-	-	105,315
Cash Flows From Noncapital Financing Activities								
Proceeds from issuance of revenue bonds	101,548	-	-	-	-	-	-	101,548
Payments for debt issuance costs	(1,183)	-	-	-	-	-	-	(1,183)
Principal payments on revenue bonds	(78,575)	-	(265,955)	-	-	-	-	(344,530)
Interest payments on revenue bonds	-	-	(55,284)	-	-	-	-	(55,284)
Interfund transfers - loan collections and investment income	(224,070)	148,283	72,335	-	(2,417)	(1)	(1)	(5,871)
Interfund transfers - purchase of mortgage loans	10,705	(7,774)	(2,931)	(12,500)	12,500	-	-	-
Interfund transfers - retirement of debt	(73,938)	(157,881)	206,574	(12,500)	-	-	37,745	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(265,513)	(17,372)	(45,261)	(25,000)	10,083	(1)	37,744	(305,320)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(350,791)	(140,235)	(113,281)	(107,709)	(14,547)	-	(340,764)	(1,067,327)
Sales of investments and mortgage-backed securities	483,335	153,418	157,626	128,497	12,403	-	303,019	1,238,298
Gain on the sales of investments and mortgage-backed securities	4,189	-	-	46	-	-	-	4,235
Interest received on investments and mortgage-backed securities	21,632	2	56	4,166	1	1	1	25,859
Net Cash Provided By (Used In) Investing Activities	158,365	13,185	44,401	25,000	(2,143)	1	(37,744)	201,065
Net Increase (Decrease) in Cash and Cash Equivalents	1,074	-	(14)	-	-	-	-	1,060
Cash and Cash Equivalents, Beginning of Year	4,058	-	14	-	-	-	-	4,072
Cash and Cash Equivalents, End of Year	$ 5,132	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,132

(Continued)

Kentucky Housing Corporation
Combining Statement of Cash Flows – Housing Revenue Bond Funds
Year Ended June 30, 2014
(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)	$ 57,114	$ 2	$ (48,570)	$ 5,217	$ 371	$ 1	$ 1	$ 14,136
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Provision for losses on loans	848	-	-	-	-	-	-	848
Debt issuance costs	975	-	-	-	-	-	-	975
Interest expense on revenue bonds	-	-	48,930	-	-	-	-	48,930
Interest income on mortgage-backed securities	(21,065)	-	-	(1,271)	-	-	-	(22,336)
Interest income on marketable securities	(16)	(2)	(56)	(2,877)	(1)	(1)	(1)	(2,954)
Net increase (decrease) in fair value of marketable securities	2,496	-	-	(1,023)	-	-	-	1,473
Net increase in fair value of swaps	-	-	(304)	-	-	-	-	(304)
Gain on sale of mortgage-backed and marketable securities	(4,189)	-	-	(46)	-	-	-	(4,235)
Other income	(1,266)	-	-	-	-	-	-	(1,266)
Changes in operating assets and liabilities:								
Fundings of housing mortgage loans	(11,401)	-	-	-	(11,738)	-	-	(23,139)
Repayments on housing mortgage loans	90,199	-	-	-	3,303	-	-	93,502
Other, net	(5,473)	4,187	846	-	125	-	-	(315)
Net Cash Provided By (Used In) Operating Activities	$ 108,222	$ 4,187	$ 846	$ -	$ (7,940)	$ -	$ -	$ 105,315

See Independent Auditor’s Report.

Independent Auditor's 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*

INDEPENDENT AUDITOR'S 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*

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of Kentucky Housing Corporation (the "Corporation"), as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated September 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 25, 2014