KENTUCKY HOUSING CORPORATION

FINANCIAL STATEMENTS
JUNE 30, 2015

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June 30, 2015

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, 2015, 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, 2015, 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.

Emphasis Matter

As discussed in Note L to the financial statements, the Corporation adopted new accounting guidance related to pensions. Our opinion is not modified with respect to this matter.

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, the schedule of Corporation's proportionate share of the net pension liability and the schedule of Corporation's employer contribution on pages 50 through 51 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 financial statements on page 52 through 55 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 30, 2015 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 30, 2015

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, 2015. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- For fiscal 2015, the Corporation adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), the provisions of which require the Corporation, as a participating employer in the Kentucky Employees Retirement System ("KERS" or "the Plan"), to reflect in the Statement of Net Position its proportionate share of the net pension liability of the Plan. The adoption of this pronouncement resulted in a decrease of $66.0 million in the Corporation's beginning net position compared to the June 30, 2014 adjusted balance. As a member of the Plan, the Corporation has always contributed such amounts as were required by the Plan, which contribution levels have proven to be insufficient to permit the plan to be fully funded. Contributions to the Plan were significantly increased for fiscal 2015, from $2.2 million in 2014 to $3.7 million in 2015, though as of June 30, 2015, the Corporation's liability for its unfunded pension obligation totaled $70.5 million.
- After consideration of the impact of adopting GASB 68, the Corporation's net position increased $8.0 million, the result of an increase in net position attributable to the Corporation's business-type activities of $12.5 million, primarily due to continued strong net interest income. The increase in the business-type activities net position was offset by a decrease attributable to the Corporation's governmental activities of $4.5 million.
- Except for the increase in the pension contributions described above, the Corporation was able to maintain expense levels at or near prior year levels.
- Prevailing low interest rates allowed the Corporation to continue reducing cost of funds by economically refunding $91 million in outstanding bonds. The resulting increased interest spread, coupled with other debt management efforts, and improved delinquency ratios and payment collections on mortgage loans increased net interest income by $4.8 million.
- Overall single family loan production totaled $250 million, with virtually all production delivered into the secondary market, through the Corporation's Secondary Market Mortgage Purchase program. Gains generated through the program totaled $12.6 million for the fiscal year.
- The Corporation's total first mortgage single family loan servicing portfolio increased by nearly $43 million, reflecting an increase in the off-balance sheet serviced for others portfolio of $200 million and a decrease in the on-balance sheet portfolio (Program - Purpose Assets-both whole loans and loans backing Mortgage-Backed Securities) of $164 million. The Corporation's serviced for others portfolio now comprises approximately 43% of total first mortgage single family loan servicing activities.

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.

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- 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.
- 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 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 in the Proprietary Funds section in pages 8-12 of the MD&A and under the Proprietary Funds' financial statements on pages 20-24.

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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 $8.0 million for the year ended June 30, 2015, after consideration of the reduction in net position of $66 million as of July 1, 2014 due to the implementation of GASB 68. 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	
	2015	2014*	2015	2014*	2015	2014*
Current assets	$ 40.3	$ 56.5	$ 201.6	$ 290.0	$ 241.9	$ 346.5
Non-current assets	-	-	1,185.1	1,321.7	1,185.1	1,321.7
Total Assets	40.3	56.5	1,386.7	1,611.7	1,427.0	1,668.2
Total Deferred Outflows of Resources	1.2	-	5.4	6.8	6.6	6.8
Current liabilities	(22.4)	(34.7)	(149.8)	(141.2)	(172.2)	(175.9)
Non-current liabilities	(23.3)	-	(978.2)	(1,182.1)	(1,001.5)	(1,182.1)
Total Liabilities	(45.7)	(34.7)	(1,128.0)	(1,323.3)	(1,173.7)	(1,358.0)
Total Deferred Inflows of Resources	(.3)	-	(.6)	-	(.9)	-
Net Position:						
Invested in capital assets	-	-	3.7	3.6	3.7	3.6
Restricted	17.9	21.8	238.8	230.0	256.7	251.8
Unrestricted	(22.4)	-	21.0	61.6	(1.4)	61.6
Net Position	$ (4.5)	$ 21.8	$ 263.5	$ 295.2	$ 259.0	$ 317.0

* Results for 2014 were not adjusted for the adoption of GASB 68.

The net position of the governmental activities decreased from $21.8 million to ($4.5 million), after consideration of the reduction in net position of $21.8 million as of July 1, 2014 due to the implementation of GASB 68. 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 unrestricted net position of ($22.4 million) represents claims against program administrative revenues not yet received, and impact of the proportionate share of the net pension liability.

The net position of the Corporation's business-type activities decreased from $295.2 million to $263.5 million after consideration of the reduction in net position of $44.2 million as of July 1, 2014 due to the implementation of GASB 68, and as a result of total revenues of $82.5 million, total program expenses of $72.5 million, and transfers in from government operations of $2.5 million, for a net increase in net position of business-type activities of $12.5 million. Comparisons in the changes in net position between fiscal years 2015 and 2014 provide additional insight on the Corporation's operating performance. Table 2 shows condensed Statement of Activities financial information.

Table 2
Statement of Activities
(in millions)

	Governmental Activities		Business-Type Activities		Total Corporation	
	2015	**2014***	**2015**	**2014***	**2015**	**2014***
Revenues						
Operating revenues	$ 11.2	$ 12.0	$ 82.5	$ 91.4	$ 93.7	$ 103.4
Operating grants	208.6	202.1	-	-	208.6	202.1
Total Revenues	219.8	214.1	82.5	91.4	302.3	305.5
Program Expenses						
Rental subsidy administration	153.9	152.0	-	-	153.9	152.0
Weatherization program	3.7	2.4	-	-	3.7	2.4
HOME program	13.6	13.4	-	-	13.6	13.4
Unemployment Bridge program	26.3	27.0	-	-	26.3	27.0
Other federal and state programs	24.3	19.9	-	-	24.3	19.9
Administrative	-	-	12.6	11.6	12.6	11.6
Bond financed loan programs	-	-	45.1	57.4	45.1	57.4
Loan servicing	-	-	5.9	6.0	5.9	6.0
Other loan and housing credit programs	-	-	8.9	6.9	8.9	6.9
Total Program Expenses	221.8	214.7	72.5	81.9	294.3	296.6
Excess before transfers	(2.0)	(.6)	10.0	9.5	8.0	8.9
Transfers	(2.5)	(1.9)	2.5	1.9	-	-
Increase (Decrease) in Net Position	$ (4.5)	$ (2.5)	$ 12.5	$ 11.4	$ 8.0	$ 8.9

* Results for 2014 were not adjusted for the adoption of GASB 68.

Total revenues for governmental activities were $219.8 million during fiscal year 2015, a $5.7 million increase from the $214.1 million in revenues in fiscal year 2014. The increase was due to a $6.5 million increase in operating grants and a $.8 million decrease in charges for services. Fiscal year 2015 operating grants include federal funding for Rental Assistance ($149.4 million), HOME ($12.8 million), Unemployment Bridge ($20.7 million) and Weatherization ($3.4 million), which represent 89% of total operating grant revenues.

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The Corporation receives fees or charges for services for federal program administration. These revenues decreased from $12.0 million in 2014 to $11.2 million during fiscal year 2015. 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 2015, $11.2 million in fee revenue was received and $8.7 million in operating expenses were incurred thereby enabling a $2.5 million transfer, a $.6 million increase over the $1.9 million transferred in 2014.

Program expenses for governmental activities increased during 2014 by $7.1 million. Program expenses for governmental activities during 2015 were $221.8 million, comprised of grants of $212.5 million and operating expenses of $9.3 million, as discussed above. In fiscal 2014, total program expenses were $214.7 million with grants of $204.6 million and operating expenses of $10.1 million.

Total revenues for business-type activities were $82.5 million during fiscal year 2015, an $8.9 million decrease from the $91.4 million of revenues in fiscal year 2014. For fiscal 2015, gains on the sale of mortgage-backed and marketable securities and loans held for sale decreased $.9 million, interest earnings from loans, mortgage-backed securities and other investments decreased $6.4 million, other income increased $.3 million, the change in fair market value of securities decreased $1.8 million, and the change in the fair market value of swaps decreased $.1 million.

Program expenses for business-type activities decreased $9.4 million from $81.9 million in 2014 to $72.5 million in 2015. Bond financed loan program expenses decreased by $12.3 million, administrative expenses, or expenses not directly attributable to programs, increased by $1.0 million, loan servicing expenses decreased by $.1 million and other loan program expenses increased by $2.0 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 $10.0 million in 2015 compared to a $9.5 million excess of expenses over revenues in 2014, an increase of $.5 million from 2014. As described above and in additional detail under "Proprietary Funds," the increase is due to an $8.9 million decrease in revenues and a $9.4 million decrease in expenses. Transfers-in were $2.5 million in 2015, a $.6 million increase from 2014. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities net position of $12.5 million.

Fund Financial Statements

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

Governmental Funds – Pages 16 through 19

Each of the columns presented in the governmental funds financial statements represents 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, 2015, the Corporation retained $40.3 million of total assets for program purposes and had $22.4 million reflected as program liabilities resulting in a total of $17.9 million reflected as restricted fund balances for program purposes.

During fiscal year 2015, the Affordable Housing Trust Fund had revenues greater than expended funds of $.1 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, $156.0 million, or transferred to proprietary funds, $2.5 million. Similarly, all HOME program revenues, $13.5 million, were expensed in an equal amount in 2015, as were Weatherization revenues of $3.6 million. Expenses of the Unemployment Bridge program exceeded revenues by $3.3 million, thereby decreasing the fund net position of the Unemployment Bridge funds. Finally, Other Housing Funds revenues exceeded expenses by $.7 million, thereby decreasing the fund net position of Other Housing Funds

Proprietary Funds – Pages 20 through 24

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 86% of the total assets, 67% of total revenues, and 83% 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.

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

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

	2015	2014*	Change
Program-Purpose Assets:			
Mortgage loans and real estate owned	$ 705.1	$ 775.5	$ (70.4)
Mortgage-backed securities	362.6	451.0	(88.4)
Housing construction loans	8.8	8.4	0.4
Other loans	8.7	9.9	(1.2)
Total Program-Purpose Assets	1,085.2	1,244.8	(159.6)
Cash and Investments	271.3	337.5	(66.2)
Loans held for sale	16.8	14.3	2.5
Other assets	13.4	15.0	(1.6)
Total Assets	1,386.7	1,611.6	(224.9)
Total Deferred Outflows of Resources	5.4	6.8	(1.4)
Bonds payable	(947.4)	(1,189.6)	(242.2)
Other liabilities	(180.6)	(133.6)	47.0
Total Liabilities	(1,128.0)	(1,323.2)	(195.2)
Total Deferred Inflows of Resources	(0.6)	-	0.6
Fund Net Position	$ 263.5	$ 295.2	$ (31.7)

* Results for 2014 were not adjusted for the adoption of GASB 68.

Mortgage loans, mortgage-backed securities, housing construction loans and other loans decreased by $159.6 million or 13% during 2015. Total program-purpose assets at June 30, 2015 were $1.09 billion. The decrease was the result of mortgage loan fundings of $55.1 million, mortgage loan repayments of $121.5 million, a loan loss provision increase of $1.1 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 $91.6 million, of which $18.5 million was due to the sale of mortgage-backed securities and the majority of the remaining $73.1 million decrease was due to payments and payoffs received on the loans underlying the mortgage-backed securities.

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Offsetting the decrease in Program Assets reflected in the Statement of Net Position is a net increase of $200.4 million in loans serviced for others, from $523.9 million to $724.3 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 $246.7 million and acquisitions of $16.8 million, net of payoffs and loan principal payments totaling approximately $63.1 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, 2015, the Debt Service Reserve requirement was $90.5 million and the amount on deposit was $167.6 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 designated approximately $50 million of the remaining $77.1 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 2015, the Corporation issued short- and long-term bonds and incurred other short-term debt (lines of credit) in the amount of $213.7 million. This includes Housing Revenue Bonds issued of $91.5 million and $122.2 of line of credit borrowings. Total bond and line-of-credit principal repayments was $452.1 million and the change in net unamortized bond premium was $.8 million. As a result of this activity, bonds outstanding decreased $242.2 million and short-term debt increased by $3.0 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.

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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)

	2015	2014*	Change
Interest income--loans	$ 38.9	$ 41.1	$ (2.2)
Interest income--mortgage-backed securities	17.7	22.3	(4.6)
Interest income--investment securities	3.3	2.9	0.4
Total interest income	59.9	66.3	(6.4)
Interest expense	(38.1)	(49.3)	11.2
Net Interest income	21.8	17.0	4.8
Increase (decrease) in fair value of marketable securities	(3.3)	(1.5)	(1.8)
Increase (decrease) in fair market value of swaps	0.2	0.3	(0.1)
Gains on sales of mortgage-backed and marketable securities and loans held for sale	14.1	15.0	(0.9)
Provision for loan losses	(1.1)	(1.7)	0.6
Net Investment Income	31.7	29.1	2.6
Other income	11.6	11.3	0.3
General and administrative expenses	(22.5)	(20.2)	(2.3)
Other expenses	(10.8)	(10.7)	(0.1)
Interfund transfers	2.5	1.9	0.6
Changes in Fund Net Position	$ 12.5	$ 11.4	$ 1.1

* Results for 2014 were not adjusted for the adoption of GASB 68.

Net position increased by $12.5 million in 2015, compared to an $11.4 million increase for 2014. The increase is attributable to several factors. Gains on sales of mortgage-backed and other marketable securities and loans held for sale decreased from $15.0 million in 2014 to $14.1 million in 2015, a decrease of $.9 million. The fair value of investment securities decreased by $3.3 million in 2015 compared to a $1.5 million decrease in 2014, representing an overall decrease of $1.8 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 $4.8 million from $17.0 million in 2014 to $21.8 million in 2015. Other (fee) income increased $.3 million from $11.3 million in 2014 to $11.6 million in 2015. The change in fair market value of swaps decreased $.1 million

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from a $.3 million increase in 2014 to a $.2 million increase in 2015. The provision for loan losses decreased $.6 million, from $1.7 million in 2014 to $1.1 million in 2015.

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs and servicing release premiums, increased by $.1 million from $10.7 million in 2014 to $10.8 million in 2015. General and administrative expenses increased by $2.3 million from $20.2 million in 2014 to $22.5 million in 2015.

Finally, changes in fund net position were impacted by interfund transfers of $2.5 million, a $.6 million increase from transfers of $1.9 million in 2014. (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. Management is committed to take those actions necessary 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.

The single most immediate financial issue facing the Corporation remains the funding status of and resultant future contributions to KERS. The increased contributions recorded in fiscal 2015 are expected to continue for the foreseeable future and possibly increase, therefore diverting resources otherwise available for the Corporation's mission critical activities. Management is confident that despite the magnitude of the obligation yet to be funded, the Corporation will be able to generate sufficient resources to fund the obligation and continue its important role in providing affordable housing.

The Corporation's Secondary Market Mortgage 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 lower interest rate/servicing spread compared to Housing Revenue Bond financing, it has over the past several 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.

As discussed above, with the Secondary Market Mortgage Purchase program remaining the singular source of funding for single family loan production, the bond indenture portfolio continues to shrink. Though over the past few years the Corporation has been able to increase interest spreads and consequently net interest income, eventually, in the foreseeable future, the decrease in the size of the portfolio may cause a decrease in net interest income. This scenario does not necessarily weaken the relative strength of the indenture portfolio, nor does it suggest that the Housing Finance Program will become unsustainable. Corporation management, as it has in the past, will continue to take advantage of bond refunding and other interest rate management techniques to maximize net interest income from the indenture portfolio.

(Continued)

The Corporation has embarked on a dedicated effort to increase its presence in the multi-family housing market with the aim to more effectively deploy available resources, including low income housing tax credits and conduit bond techniques, to maximize the number of families impacted, both with new construction and preservation of existing properties. These initiatives have been favorably received by our housing partners throughout the Commonwealth. Increasing the number of affordable multi-family housing units is a natural complement to the Corporation's history of providing single family financing and reaches an additional segment of the Commonwealth's population in need.

As of June 30, 2015 the total amount of variable rate debt was $154.7 million of the total bond indebtedness of $944.3 million, or 16.4%. The Corporation mitigates interest rate risk with interest rate swaps on $112.1 million of its variable rate debt. After several years of low short term interest rates, and with many swaps approaching their optional par termination dates, management is developing strategies to take maximum advantage of market conditions and 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.

The Corporation's management continues to watch 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. High unemployment rates and still depressed housing values in selected geographic regions 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 mortgage-backed securities is with recourse to Fannie Mae and there is minimal underlying default risk associated with the loans backing the Corporation's GNMA mortgage-backed securities investments. Corporate mortgage-backed securities holdings at June 30, 2015 totaled $363 million. Additional information on the Corporation's mortgage-backed securities 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, 2015. 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, 2015
(Dollars in thousands)

ASSETS	Governmental Activities	Business-Type Activities	Combined Totals
Current Assets			
Cash and cash equivalents	$ 28,763	$ 61,505	$ 90,268
Investment securities	8,282	62,185	70,467
Mortgage-backed securities	-	14,094	14,094
Housing mortgage loans held for sale	-	16,827	16,827
Housing mortgage loans	-	30,243	30,243
Housing construction loans	-	8,811	8,811
Other loans	-	683	683
Accounts receivable and other assets	4,129	6,374	10,503
Interfund accounts	(854)	854	-
Total Current Assets	40,320	201,576	241,896
Noncurrent Assets			
Investment securities	-	147,578	147,578
Mortgage-backed securities	-	348,458	348,458
Housing mortgage loans	-	672,597	672,597
Other loans	-	8,016	8,016
Real estate owned and related receivables	-	2,304	2,304
Capital assets	-	3,734	3,734
Other noncurrent assets	-	2,485	2,485
Total Noncurrent Assets	-	1,185,172	1,185,172
Total Assets	40,320	1,386,748	1,427,068
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of derivatives - interest rate swaps	-	2,888	2,888
Deferred outflows related to pension	1,227	2,476	3,703
Total Deferred Outflows of Resources	1,227	5,364	6,591
LIABILITIES			
Current Liabilities			
Lines of credit	-	42,831	42,831
Accounts payable and other liabilities	22,419	1,562	23,981
Accrued interest payable	-	15,756	15,756
Escrows and project reserves	-	56,792	56,792
Revenue bonds, due within one year	-	32,875	32,875
Total Current Liabilities	22,419	149,816	172,235
Noncurrent Liabilities			
Revenue bonds, due after one year	-	914,520	914,520
Other noncurrent liabilities	-	13,594	13,594
Derivative instruments - interest rate swaps	-	2,920	2,920
Net pension liability	23,369	47,150	70,519
Total Noncurrent Liabilities	23,369	978,184	1,001,553
Total Liabilities	45,788	1,128,000	1,173,788
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	300	606	906
NET POSITION			
Net investment in capital assets	-	3,734	3,734
Restricted by			
Revenue bond indenture	-	219,745	219,745
Enabling legislation	-	7,759	7,759
Program requirements	17,901	-	17,901
Unrestricted	(22,442)	32,268	9,826
Net Position	$ (4,541)	$ 263,506	$ 258,965

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
CORPORATION-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015
(Dollars in thousands)

	Direct Expenses		Program Revenues		Net (Expense) Revenues and Changes in Net Position		
Functions/Activities	**Grants**	**Operating**	**Charges for Services**	**Operating Grants**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental Activities							
Rental assistance	$ 149,442	$ 4,371	$ 6,584	$ 149,442	$ 2,213	$ -	$ 2,213
HOME program	12,821	774	712	12,821	(62)	-	(62)
Weatherization	3,358	308	281	3,358	(27)	-	(27)
Unemployment Bridge	23,936	2,343	2,283	20,681	(3,315)	-	(3,315)
Other federal and state housing programs	22,931	1,411	1,340	22,277	(725)	-	(725)
Total Governmental Activities	212,488	9,207	11,200	208,579	(1,916)	-	(1,916)
Business-Type Activities							
Administrative	1,356	11,310	123	-	-	(12,543)	(12,543)
Bond financed loan programs	-	45,070	56,686	-	-	11,616	11,616
Loan servicing	-	5,939	8,369	-	-	2,430	2,430
Other loan and housing credit programs	-	8,892	17,367	-	-	8,475	8,475
Total Business-Type Activities	1,356	71,211	82,545	-	-	9,978	9,978
Total Activities	$ 213,844	$ 80,418	$ 93,745	$ 208,579	(1,916)	9,978	8,062
Transfers					(2,532)	2,532	-
Change in Net Position					(4,448)	12,510	8,062
Net Position, Beginning of Year, as restated					(93)	250,996	250,903
Net Position, End of Year					$ (4,541)	$ 263,506	$ 258,965

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2015
(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	$ 4,217	$ 12,591	$ -	$ -	$ 546	$ 101	$ 11,308	$ 28,763
Investment securities	4,378	-	-	-	-	2,994	910	8,282
Accounts receivable and other assets	-	962	-	408	-	-	2,759	4,129
Interfund accounts	-	(47)	-	(102)	(207)	-	(498)	(854)
Total Current Assets	8,595	13,506	-	306	339	3,095	14,479	40,320
Noncurrent Assets								
Program loans	15,170	97,984	53,312	-	-	87,996	2,741	257,203
Less loan loss provision	(15,170)	(97,984)	(53,312)	-	-	(87,996)	(2,741)	(257,203)
Total Noncurrent Assets	-	-	-	-	-	-	-	-
Total Assets	$ 8,595	$ 13,506	$ -	$ 306	$ 339	$ 3,095	$ 14,479	$ 40,320
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	$ -	$ 13,506	$ -	$ 306	$ 339	$ 569	$ 7,699	$ 22,419
FUND BALANCE								
Restricted by program requirements	8,595	-	-	-	-	2,526	6,780	17,901
Total Liabilities and Fund Balance	$ 8,595	$ 13,506	$ -	$ 306	$ 339	$ 3,095	$ 14,479	$ 40,320

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE CORPORATION-WIDE STATEMENT OF NET POSITION
June 30, 2015
(Dollars in thousands)

Fund balances - total governmental funds	$	17,901
Amounts reported for governmental activities in the Statement of Net Position are different because of the measurement attributable to:		
Some liabilities, including net pension liability, are not due and payable in the current period and, therefore, are not reported in the individual governmental funds:		
Net pension liability		(23,369)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the individual governmental funds:		
Deferred outlfows of resources related to pensions of $1,227 represents deferred outflow of 2015 employer contributions related to pensions		1,227
Deferred inflows of resources related to pensions		(300)
Net position of governmental activities	$	(4,541)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION – GOVERNMENTAL FUNDS
Year Ended June 30, 2015
(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	$ -	$ 712	$ 281	$ 6,584	$ 2,283	$ 1,340	$ 11,200
Pass-through grant revenues	4,934	12,821	3,358	149,442	20,681	17,343	208,579
Total Revenues	4,934	13,533	3,639	156,026	22,964	18,683	219,779
Expenditures							
General and administrative	-	712	281	4,052	2,283	1,340	8,668
Pass-through grant expenditures	4,880	12,821	3,358	149,442	23,936	18,051	212,488
Total Expenditures	4,880	13,533	3,639	153,494	26,219	19,391	221,156
Revenues in Excess of / (Less Than) Expenditures	54	-	-	2,532	(3,255)	(708)	(1,377)
Interfund Transfers	-	-	-	(2,532)	-	-	(2,532)
Change in Fund Balance	54	-	-	-	(3,255)	(708)	(3,909)
Fund Balance, Beginning of Year	8,541	-	-	-	5,781	7,488	21,810
Fund Balance, End of Year	$ 8,595	$ -	$ -	$ -	$ 2,526	$ 6,780	$ 17,901

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – GOVERNMENTAL FUNDS TO THE CORPORATION-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015
(Dollars in thousands)

Net changes in fund balances - total governmental funds			$	(3,909)
Amounts reported for governmental activities in the Corporation-Wide Statement of Activities are different because of the measurement focus attributable to:				
Governmental funds report pension contributions as expenditures using the current finanical resources measurement focus. However, in the Corporation-Wide Statement of Activities, the cost of pension benefits earned is reported economic resource measurement focus and the full accrual basis of accounting.				
Corporation pension contributions (deferred outflows)	$	1,227		
Cost of pension benefits earned		(1,766)		(539)
Change in net position of governmental activities			$	(4,448)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2015
(Dollars in thousands)

ASSETS	**General Funds**	**Housing Revenue Bond Funds**	**Housing Development Fund**	**Combined Totals**
Current Assets				
Cash and cash equivalents	$ 58,635	$ 2,819	$ 51	$ 61,505
Investment securities	2,027	58,444	1,714	62,185
Mortgage-backed securities	-	14,094	-	14,094
Housing mortgage loans held for sale	16,827	-	-	16,827
Housing mortgage loans	3,346	26,897	-	30,243
Housing construction loans	2,810	-	6,001	8,811
Other loans	683	-	-	683
Accounts receivable and other assets	6,374	-	-	6,374
Interfund accounts	871	(17)	-	854
Total Current Assets	91,573	102,237	7,766	201,576
Noncurrent Assets				
Investment securities	-	147,578	-	147,578
Mortgage-backed securities	-	348,458	-	348,458
Housing mortgage loans	78,354	594,243	-	672,597
Other loans	8,016	-	-	8,016
Real estate owned and related receivables	-	2,304	-	2,304
Capital assets	3,734	-	-	3,734
Other noncurrent assets	2,485	-	-	2,485
Total Noncurrent Assets	92,589	1,092,583	-	1,185,172
Total Assets	184,162	1,194,820	7,766	1,386,748
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of derivatives - interest rate swaps	-	2,888	-	2,888
Deferred outflows related to pension	1,859	617	-	2,476
Total Deferred Outflows of Resources	1,859	3,505	-	5,364

(Continued)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2015
(Dollars in thousands)

LIABILITIES	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Current Liabilities				
Lines of credit	$ 42,831	$ -	$ -	$ 42,831
Accounts payable and other liabilities	1,498	64	-	1,562
Accrued interest payable	-	15,756	-	15,756
Escrows and project reserves	56,792	-	-	56,792
Revenue bonds, due within one year	-	32,875	-	32,875
Total Current Liabilities	101,121	48,695	-	149,816
Noncurrent Liabilities				
Revenue bonds, due after one year	-	914,520	-	914,520
Other noncurrent liabilities	13,043	544	7	13,594
Derivative instruments - interest rate swaps	-	2,920	-	2,920
Net pension liability	35,400	11,750	-	47,150
Total Noncurrent Liabilities	48,443	929,734	7	978,184
Total Liabilities	149,564	978,429	7	1,128,000
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	455	151	-	606
NET POSITION				
Invested in capital assets	3,734	-	-	3,734
Restricted by				
Revenue bond indenture	-	219,745	-	219,745
Enabling legislation	-	-	7,759	7,759
Unrestricted	32,268	-	-	32,268
Net Position	$ 36,002	$ 219,745	$ 7,759	$ 263,506

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2015
(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	$ 3,546	$ 35,250	$ 162	$ 38,958
Mortgage-backed securities	-	17,704	-	17,704
Marketable securities	-	3,331	-	3,331
Net (decrease) in fair value of marketable securities	-	(3,282)	-	(3,282)
Net increase in fair market value of swaps	-	186	-	186
Gains on sales of mortgage-backed and marketable securities	12,553	1,529	-	14,082
Fees, charges and other income	10,591	975	-	11,566
Total Operating Revenues	26,690	55,693	162	82,545
Operating Expenses				
Interest on revenue bonds and notes payable	366	37,771	-	38,137
Provision for losses on loans	1,199	(71)	4	1,132
General and administrative	22,232	261	-	22,493
Housing assistance grants	1,356	-	-	1,356
Mortgage loan servicers' fees	11	2,344	-	2,355
Loan origination costs	6,141	77	-	6,218
Debt issuance costs	-	876	-	876
Total Operating Expenses	31,305	41,258	4	72,567
Operating Income (Loss)	(4,615)	14,435	158	9,978
Interfund Transfers	8,602	(6,070)	-	2,532
Change in Net Position	3,987	8,365	158	12,510
Net Position, Beginning of Year, as restated	32,015	211,380	7,601	250,996
Net Position, End of Year	$ 36,002	$ 219,745	$ 7,759	$ 263,506

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2015
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 3,547	$ 35,250	$ 102	$ 38,899
Gain on sales of loans held for sale	11,476	-	-	11,476
Fees, charges and other income	11,154	-	-	11,154
Personnel costs	(16,706)	-	-	(16,706)
Operating expenses	(9,077)	(2,682)	-	(11,759)
Housing assistance grants	(1,356)	-	-	(1,356)
Fundings of housing mortgage loans	(296,636)	(5,216)	-	(301,852)
Repayments on housing mortgage loans	32,617	88,917	-	121,534
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	246,734	-	-	246,734
Net changes in housing construction loans	(469)	-	74	(395)
Other, net	2,537	117	-	2,654
Net Cash Provided By (Used In) Operating Activities	(16,179)	116,386	176	100,383
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit and issuance of revenue bonds	122,241	91,904	-	214,145
Payments for debt issuance costs	-	(1,199)	-	(1,199)
Principal payments on lines of credit and revenue bonds	(119,235)	(332,865)	-	(452,100)
Interest payments on revenue bonds and lines of credit	(366)	(43,877)	-	(44,243)
Changes in escrows and project reserves	7,116	-	-	7,116
Interfund transfers	8,332	(5,800)	-	2,532
Net Cash Provided By (Used In) Noncapital Financing Activities	18,088	(291,837)	-	(273,749)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(584)	-	-	(584)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(377,642)	(710,392)	(1,150)	(1,089,184)
Sales of investments and mortgage-backed securities	378,341	860,824	-	1,239,165
Gain on sales of investments and mortgage-backed securities	-	1,529	-	1,529
Interest received on investments and mortgage-backed securities	-	21,177	-	21,177
Net Cash Provided By (Used In) Investing Activities	699	173,138	(1,150)	172,687
Net Increase (Decrease) in Cash and Cash Equivalents	2,024	(2,313)	(974)	(1,263)
Cash and Cash Equivalents, Beginning of Year	56,611	5,132	1,025	62,768
Cash and Cash Equivalents, End of Year	$ 58,635	$ 2,819	$ 51	$ 61,505

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2015
(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)	$ (4,615)	$ 14,435	$ 158	$ 9,978
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(1,077)	-	-	(1,077)
Provision for losses on loans	1,199	(71)	4	1,132
Debt issuance costs	-	876	-	876
Amortization of intangible asset	461	-	-	461
Depreciation expense	445	-	-	445
Interest expense on revenue bonds and lines of credit	366	37,771	-	38,137
Interest income on mortgage-backed securities	-	(17,704)	-	(17,704)
Interest income on marketable securities	1	(3,331)	-	(3,330)
Net (increase) decrease in fair value of marketable securities	-	3,282	-	3,282
Net (increase) decrease in fair value of swaps	-	(186)	-	(186)
Gain on sale of mortgage-backed and marketable securities	-	(1,529)	-	(1,529)
Other income	-	(975)	-	(975)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(296,636)	(5,216)	-	(301,852)
Repayments on housing mortgage loans	32,617	88,917	-	121,534
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	246,734	-	-	246,734
Housing construction loans	(469)	-	74	(395)
Other, net	4,795	117	(60)	4,852
Net Cash Provided By (Used In) Operating Activities	$ (16,179)	$ 116,386	$ 176	$ 100,383

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

<u>Basis of Presentation</u>: 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, deferred inflows, deferred outflows, 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, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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. Each governmental fund is considered a major fund.

(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 the American Recovery and Reinvestment Act of 2009. 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: These funds account 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. Each proprietary fund is considered a major fund. The Corporation's proprietary funds are:

> **General Funds:** These funds account for proprietary fund (1) activities related to the development and administration of corporate financial programs, (2) corporate-owned assets and (3) any business type activities of the Corporation not included in the Housing Revenue Bond indenture or construction loans, 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.

<u>Cash and Cash Equivalents</u>: 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.

<u>Investment and Mortgage-Backed Securities</u>: 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.

<u>Loans and Allowance for Loan Losses</u>: 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 Fund Balance Classification Policies and Procedures: Due to the fact that the Corporation's governmental funds account for intragovernmental revenues received under the terms of grant agreements and the related grant expenditures, all governmental fund activities are reflected as restricted; therefore, the Corporation has not adopted a written policy regarding the classification of governmental fund balance 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.*

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of KERS and additions to/deductions from the KERS fiduciary net position have been determined on the same basis as they are reported by KERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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.

(Continued)

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

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.

Implementation of Accounting Standards: The Corporation adopted the following accounting standards during the year:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of these statements is to improve accounting and financial reporting by state and local governments for pensions. The statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense. The Corporation adopted the new GASB accounting standards effective July 1, 2014, with a decrease in the governmental wide activities of $21.9 million and the business type activities of $44.2 million. Within the business type activities, the General Funds decreased by $11.0 million and the Housing Revenue Bond Fund decreased by $33.2 million.

- The Corporation has determined that GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the fiscal year ended June 30, 2015, will have no effect on its financial statements.

GASB standards that are under evaluation include:

- GASB Statement No. 72, *Fair Value Measurement and Application* is effective for the fiscal year ending June 30, 2016, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* is effective for the fiscal year ending June 30, 2016, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* is effective for the year ending June 30, 2017, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than* Pensions is effective for the fiscal year ending June 30, 2018 and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* is effective for the year ending June 30, 2016. The Corporation has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

(Continued)

(Dollars in thousands)

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, 2015, the carrying amount of the Corporation's cash and cash equivalents was $90,268 and the bank balance was $87,021. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $87,021 bank balance, $36,691 was covered by federal depository insurance and $50,330 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 $87,628 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. Of the above amount, $28,763 is restricted in governmental activities and $58,865 is restricted in business type activities. Within the business type activities, the restricted amounts are almost entirely in the general fund.

Investment and Mortgage-Backed Securities: At June 30, 2015 the Corporation had the following:

Investment Type	Fair Value	Effective Duration (in Years)
U.S. Treasurys	$ 11,696	3.46
U.S. government-sponsored enterprises	135,882	4.58
Mortgage-backed securities	362,552	2.41
Certificates of deposit	331	0.00
Money market funds	70,136	0.00
Total Investment and Mortgage-Backed Securities	580,597	2.65
Less amounts shown as current assets	84,561	
Noncurrent Investment and Mortgage-Backed Securities	$ 496,036	

(Continued)

(Dollars in thousands)

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

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

Credit Risk: The Corporation's investment policy defines the types of investments available to the Corporation. Investments, including the underlying securities for 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, 2015:

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, 2015 consist of the following:

Issuer	Fair Value	Percentage of Portfolio
GNMA	$ 268,924	46%
U.S. government-sponsored enterprises	135,882	23%
Fannie Mae	93,628	16%
Dreyfus	70,136	12%

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 $245,485 as of June 30, 2015. 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.

(Continued)

(Dollars in thousands)

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

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 $82,986 as of June 30, 2015. Although performance of the Fannie Mae securities is guaranteed by Fannie Mae, the Corporation has retained full recourse risk with respect to $8,321 of the underlying loans and recourse on an additional $6,347 of loans subject to a stop loss agreement with Fannie Mae. The remaining $68,317 of underlying loans is without recourse to the Corporation.

Note D--Housing Mortgage Loans

At June 30, 2015, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$ 586,967
Multifamily (B)	33,364
Total Housing Revenue Bond Funds	620,331
General Funds (C)	87,494
Total Principal	707,825
Add accrued interest receivable on loans	2,665
Total Principal and Accrued Interest	710,490
Less allowance for loan losses	7,650
Net Housing Mortgage Loans	702,840
Less amount shown as current assets	30,243
Noncurrent Housing Mortgage Loans	$ 672,597

Additional information related to loans includes:

Note (A) Single-family includes $562,345 in federally insured or guaranteed loans, $15,940 of non-insured loans with initial loan-to-value ratios less than 90%, and $8,682 of loans covered by private mortgage insurance.

Note (B) Multifamily includes $28,547 in federally insured or guaranteed loans and $4,817 in non-insured loans.

Note (C) General Funds include $42,465 in federally insured or guaranteed loans and $45,029 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.

(Continued)

(Dollars in thousands)

Note E--Other Loan Related Activities (Continued)

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 $899.

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 $1,408.

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.

Loan Commitments: At June 30, 2015, the Corporation is committed to make single-family mortgage loans and housing construction loans totaling $56,861 and $1,934, respectively. The Corporation had $44,220 in outstanding commitments to sell single-family loans at June 30, 2015.

Note F-- Loan Servicing

In addition to the GNMA and Fannie Mae mortgage-backed securities portfolios that the Corporation services for its own indenture (See Note C), the Corporation was servicing the following for other investors at June 30, 2015:

Servicing Type	Number of Loans	Amounts
GNMA mortgage-backed securities	4,897	$ 453,970
Fannie Mae Mortgage-backed securities	620	41,233
Fannie Mae whole loans	1,866	229,088
	7,383	$ 724,291

Included in Fannie Mae mortgage-backed securities totals are loans totaling $22,283 on which the Corporation has retained default risk on the underlying loans. Included in Fannie Mae whole loan amounts are loans totaling $108,990 for which the Corporation has retained 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.

(Continued)

(Dollars in thousands)

Note G--Capital Assets

Major classes of capital assets at June 30, 2015 and activity during the year follows:

Business-Type Activities	Balance July 1, 2014	Additions	Retirements and Dispositions	Balance June 30, 2015
Land	$ 1,089	$ -	$ -	$ 1,089
Buildings	5,036	125	-	5,161
Equipment	4,876	459	(297)	5,038
Less accumulated depreciation	(7,406)	(445)	297	(7,554)
Net Capital Assets	$ 3,595	$ 139	$ -	$ 3,734

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

Note H--Lines of Credit

The Corporation's lines of credit at June 30, 2015 and activity during the year follows:

Business-Type Activities	Balance July 1, 2014	Borrowings	Repayments and Dispositions	Balance June 30, 2015
Loan Warehousing Line of Credit 1	$ 32,325	$ 18,041	$ 10,435	$ 39,931
Loan Warehousing Line of Credit 2	7,500	104,200	108,800	2,900
	$ 39,825	$ 122,241	$ 119,235	$ 42,831

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, 2016. The rate as of June 30, 2015 was .78%. 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 the daily LIBOR plus 60 basis points and, with its recent renewal, matures August 12, 2016. The rate as of June 30, 2015 was .79%.

(Continued)

(Dollars in thousands)

Note I--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2015 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2014	Issued	Repaid/ Retired	Balance June 30, 2015	Amount Due Within One Year
Housing Revenue Bonds:						
2004 Series D:						
2016-2025, 4.45% to 4.90%	$ 55,000	$ 14,480	$ -	$ 14,480	$ -	$ -
2004 Series F:						
2016-2026, 4.20% to 4.60%	45,000	13,730	-	13,730	-	-
2004 Series G:						
2016-2017, 3.85% to 4.05%	10,225	1,950	-	1,950	-	-
2004 Series H:						
2017-2026, 4.50% to 4.70%	29,775	6,200	-	6,200	-	-
2005 Series A:						
2016-2018, 4.25% to 4.35%	18,670	9,630	-	8,415	1,215	430
2005 Series B:						
2016-2033, variable	16,330	5,465	-	1,190	4,275	35
2005 Series C:						
2016-2031, 3.85% to 4.50%	22,215	13,410	-	13,410	-	-
2005 Series D:						
2019-2027, 4.60%	37,785	11,135	-	11,135	-	-
2005 Series E:						
2016-2034, 4.10% to 5.00%	80,000	35,600	-	35,600	-	-
2005 Series F:						
2016, 4.78%	20,000	2,710	-	2,380	330	330
2005 Series G:						
2016-2031, 4.20% to 5.00%	37,390	14,240	-	14,240	-	-
2005 Series H:						
2017-2037, variable	21,925	21,925	-	21,925	-	-
2005 Series I:						
2016-2017, 5.04%	22,940	4,640	-	2,300	2,340	2,265
2005 Series L:						
2017-2037, variable	20,000	18,230	-	1,430	16,800	-
2006 Series A:						
2016-2031, 4.10% to 4.75%	8,775	3,965	-	3,965	-	-
2006 Series B:						
2016-2037, 4.80% to 5.25%	15,420	3,145	-	3,145	-	-
2006 Series C:						
2024-2037, variable	15,425	15,425	-	2,155	13,270	-
2006 Series D:						
2016, 5.24%	20,000	2,355	-	2,280	75	75
2006 Series E:						
2031-2037, 4.75%	27,140	11,375	-	5,345	6,030	-
2006 Series F:						
2017-2030, variable	20,540	20,540	-	-	20,540	-
2006 Series H:						
2017-2030, 4.65% to 4.95%	41,495	21,360	-	3,710	17,650	-
2006 Series I:						
2019-2032, variable	23,750	23,750	-	-	23,750	-

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2014	Issued	Repaid/ Retired	Balance June 30, 2015	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2006 Series K:						
2018-2023, 4.30% to 4.55%	$ 9,585	$ 955	$ -	$ 600	$ 355	$ -
2006 Series L:						
2033-2037, 5.50%	19,085	670	-	670	-	-
2006 Series M:						
2017-2033, variable	21,000	21,000	-	-	21,000	-
2006 Series O:						
2017-2036, variable	29,035	15,520	-	-	15,520	-
2006 Series P:						
2016-2035, 3.95% to 4.60%	8,210	8,150	-	260	7,890	475
2006 Series Q:						
2018-2032, 4.50% to 4.85%	41,790	18,255	-	3,320	14,935	-
2006 Series R:						
2017-2038, 5.816%	21,700	1,535	-	1,535	-	-
2006 Series S:						
2016-2037, 5.88%	15,000	2,625	-	2,625	-	-
2006 Series T:						
2017-2038, variable	23,300	8,455	-	-	8,455	-
2006 Series U:						
2016-2038, 4.40% to 4.90%	45,000	22,285	-	3,370	18,915	435
2006 Series W:						
2017-2038, variable	38,380	12,090	-	-	12,090	-
2007 Series A:						
2016-2038, 4.2% to 4.65%	39,545	28,980	-	1,220	27,760	365
2007 Series B:						
2019-2038, 5.58%	38,000	4,885	-	2,860	2,025	-
2007 Series C:						
2016-2038, 4.35% to 4.80%	50,000	37,300	-	1,120	36,180	515
2007 Series D:						
2018-2038, 5.745%	30,000	5,285	-	2,200	3,085	-
2007 Series E:						
2016-2038, 4.30% to 4.85%	45,000	35,955	-	1,835	34,120	825
2007 Series F:						
2018-2038, 5.53%	30,000	1,375	-	1,375	-	-
2007 Series G:						
2016-2035, 4.05% to 4.75%	6,285	6,275	-	175	6,100	-
2007 Series H:						
2016-2028, 4.45% to 4.90%	34,965	13,540	-	2,705	10,835	390
2007 Series I:						
2018-2038, 5.77%	16,620	1,965	-	920	1,045	-
2007 Series J:						
2018-2038, variable	17,130	12,740	-	-	12,740	-
2007 Series K:						
2017-2028, 4.15% to 4.85%	7,405	7,385	-	6,125	1,260	-

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2014	Issued	Repaid/ Retired	Balance June 30, 2015	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2007 Series L:						
2016-2031, 4.75% to 5.50%	$ 25,485	$ 1,915	$ -	$ 850	$ 1,065	$ 60
2007 Series M:						
2019-2037, 6.06%	27,000	4,175	-	1,750	2,425	-
2007 Series N:						
2016-2028, 4.375% to 5.00%	40,000	17,265	-	12,000	5,265	360
2007 Series O:						
2016-2038, variable	10,000	6,375	-	155	6,220	140
2008 Series A:						
2016-2033, 4.05% to 5.25%	39,270	10,785	-	4,030	6,755	350
2008 Series C:						
2016-2034, 3.90% to 5.00%	14,230	10,950	-	6,605	4,345	120
2008 Series E:						
2016-2024, 3.95% to 4.875%	60,000	22,540	-	10,820	11,720	725
2008 Series F:						
2020-2037, 5.625%	10,000	390	-	390	-	-
2009 Series B:						
2016-2035, 2.95% to 5.00%	60,000	43,390	-	16,165	27,225	1,230
2009 Series C, Sub series C-3:						
2028-2042, 3.55%	30,000	25,570	-	3,420	22,150	-
2009 Series C, Sub series C-4:						
2028-2042, 2.52%	30,000	29,410	-	2,970	26,440	-
2010 Series A:						
2016-2027, 2.25% to 5.00%	40,000	22,265	-	5,780	16,485	1,980
2010 Series B:						
2016-2028, 2.30% to 5.00%	40,000	23,845	-	4,850	18,995	2,030
2010 Series C:						
2028-2034, 4.375% to 4.625%	10,000	6,705	-	670	6,035	-
2010 Series D:						
2016-2021, 3.15% to 4.40	46,000	31,430	-	10,845	20,585	2,835
2010 Series E:						
2021-2036, 3.625% to 4.75%	20,000	20,000	-	845	19,155	-
2011 Series A:						
2016-2028, 2.35% to 5.00%	20,000	13,780	-	2,660	11,120	520
2011 Series B:						
2016-2028, 1.75% to 4.25%	20,000	17,055	-	2,790	14,265	595
2012 Series A:						
2016-2034, 1.436% to 4.268%	187,755	151,890	-	12,445	139,445	8,355
2013 Series A:						
2041, 3.00%	52,940	46,825	-	6,015	40,810	-
2013 Series B:						
2041, 3.00%	54,920	49,900	-	5,770	44,130	-
2013 Series C:						
2016-2024, 0.94% to 3.522%	36,470	33,100	-	3,015	30,085	2,225

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2014	Issued	Repaid/ Retired	Balance June 30, 2015	Amount Due Within One Year
lousing Revenue Bonds-Continued						
2013 Series D:						
2024-2033, 3.20% to 4.00%	49,410	41,405	-	9,030	32,375	-
2013 Series E:						
2016-2024, 1.00% to 3.20%	7,590	7,590	-	175	7,415	80
2013 Series F:						
2016, 0.85% to 1.20%	2,200	1,310	-	795	515	515
2013 Series G:						
2024-2034, 4.00%	4,300	3,360	-	2,890	470	-
2014 Series A:						
2016-2034, 0.30% to 4.296%	4,300	-	61,445	2,745	58,700	3,585
2014 Series B:						
2016-2037, 0.18% to 4.097%	4,300	-	30,000	665	29,335	1,030
Total Housing Revenue Bonds	$ 2,143,005	1,185,710	$ 91,445	$ 332,865	944,290	$ 32,875
Unamortized premium		3,859			3,105	
Net Revenue Bonds		$ 1,189,569			$ 947,395	

As indicated in the above table, bond issues totaling $154,660 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 $115,155 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 $39,505 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, 2015, 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,				
2016	$ 32,875	$ 30,440	$ 3,918	$ 67,233
2017	44,145	28,548	3,476	76,169
2018	46,755	27,432	3,340	77,527
2019	48,605	26,104	3,239	77,948
2020	49,600	24,675	3,092	77,367
Five years ending June 30,				
2021-2025	219,245	100,664	12,791	332,700
2026-2030	195,930	66,478	6,775	269,183
2031-2035	164,390	34,348	2,061	200,799
2036-2040	51,735	16,767	112	68,614
2041-2045	91,010	4,854	-	95,864
	$ 944,290	$ 360,310	$ 38,804	$ 1,343,404

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.

Other Noncurrent Liabilities: Other liabilities had the following activity during the year:

Account	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Other noncurrent liabilities	$ 13,747	$ 886	$ (1,039)	$ 13,594

(Continued)

(Dollars in thousands)

Note J--Interest Rate Swap Agreements

Summary of Derivative Instruments: The Corporation has entered into nine 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 nine 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, 2015, eight of the nine swaps were determined to be effective hedges, while the 2006 W swap has been determined to be ineffective for the purposes of GASB 53, Accounting and Financial Reporting for Derivative Instruments. The effectively hedged swaps, which have a notional amount of $109,400, increased in fair value by $3,897 during the year ended June 30, 2015. 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, 2015, the aggregate balance of Deferred Outflows of resources attributable to effective swap hedges is $2,888. The ineffective swap, which has a notional amount of $2,685, also increased in fair value by $186 during the year ended June 30, 2015. This increase is recorded as investment revenue for the year ended June 30, 2015.

The aggregate fair value of all swaps, totaling $2,920, 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	$ 4,670	1/1/2032	3.188%	62% 3M LIBOR + 28 bp	1/1/2016
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	$ 2,805	1/1/2017	5.700%	100% 1M LIBOR	N/A
2006 Series T	9/27/2006	$ 23,300	$ 1,210	1/1/2016	5.337%	100% 1M LIBOR	N/A
2006 Series W	11/29/2006	$ 38,380	$ 2,685	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, 2015, the swaps had a negative fair value of $2,920. 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. (Baa1/A-/A) serves as the counterparty for eight of the Corporation's derivative instruments and accounts for $109,400 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 (A1(cr)/A/A) serves as the counterparty for the remaining swap and accounts for $2,685 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, 2015, conduit debt obligations have been issued for 30 multi-family projects totaling approximately $242,468. 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 KERS, a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"), an agency of the Commonwealth. Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees ("KRS Board") of KRS administers the KERS, County Employees Retirement System and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

More specifically, within KERS the Corporation's employees participate in the Non-Hazardous portion of the Plan, which covers all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances.

KRS issues a publicly available financial report that includes audited financial statements and audited required supplementary information for KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

(Continued)

(Dollars in thousands)

Note L--Retirement Plan (Continued)

Benefits provided: The information below summarizes the major retirement benefit provisions of KERS-Non-Hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

For members whose participation began before September 1, 2008, the following provisions are in force:

Age and service requirement: Age 65, with at least one month of non-hazardous duty service credit

Benefit Amount: For members whose participation began before August 1, 2004, if a member has at least 48 months of service, the monthly benefit is 1.97% times final average compensation times years of service. For members who were participants in any one of the state retirement systems from January 1, 1998 through January 1, 1999, the benefit factor is 2.00%. For those members who retired between January 1, 1999 and January 31, 2009 with at least 240 months of service, the benefit factor is 2.20%. For members whose participation began on or after August 1, 2004, the benefit factor is 2%.

Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used.

If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

For members whose participation began on or after September 1, 2008, but before January 1, 2014, the following provisions are in force:

Age and service requirement: Age 65 with 60 months of non-hazardous duty service credit, or age 57 if age plus service equals at least 87

Benefit Amount: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

`

Service Credit	Benefit Factor
10 years or less	1.10%
10+ - 20 years	1.30%
20+ - 26 years	1.50%
26+ - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

(Continued)

Note L--Retirement Plan (Continued)

For members whose participation began on or after January 1, 2014, the following provisions are in force:

Age and service requirement: Age 65 with 60 months of non-hazardous duty service credit, or age 57 if age plus service equals at least 87

Benefit: Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 5.00% and 4.00%, respectively, of creditable compensation into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year.

Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

Contributions: For the fiscal year ended June 30, 2015, plan members who began participating prior to January 1, 2014 were required to contribute 5% of their annual creditable compensation. Participating employers, including the Corporation, were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board. However, formal commitment to provide the contributions by the employer is made through the Commonwealth's biennial budget. For the fiscal years ended June 30, 2015 and 2014, participating employers, contributed 30.84% and 17.29%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute five percent of their creditable compensation to their own account**.** The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's creditable compensation. Each month an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

(Continued)

(Dollars in thousands)

Note L--Retirement Plan (Continued)

Total Pension Liability**:** The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

Discount rate assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 7.75%.
(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
(c) Long term rate of return: The long term rate of return assumption on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.
(d) Municipal bond rate: The discount rate determination does not use a municipal bond rate.
(e) Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2116.

(Continued)

(Dollars in thousands)

Note L--Retirement Plan (Continued)

(f) Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.45%
International equity	22%	8.85%
Core U.S. fixed income	10%	5.25%
Private equity	7%	1.25%
Other classes, each 5% or less	31%	7.04%
Total	100%	

(g) Sensitivity Analysis: This paragraph requires disclosure of the sensitivity of the net pension liability ("NPL") to changes in the discount rate. The Corporation's allocated portion of the NPL of $70,519, which is based on a discount rate of 7.75%, would increase to $79,332 using a discount rate of 6.75% and would decrease to $62,573 using a discount rate of 8.75%.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary increase	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Employer's portion of the collective Net Pension Liability: The Corporation's proportionate share of the Plan's NPL, as indicated in the preceding paragraph, is $70,519 or 0.786%. The liability was distributed by the Plan based on 2014 actual employer contributions to the plan.

Measurement date: June 30, 2014 is the actuarial valuation date upon which the TPL is based. No update procedures were used to determine the TPL. An expected TPL is determined as of July 1, 2013 using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service costs), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year.

(Continued)

Note L--Retirement Plan (Continued)

Changes in assumptions and benefit terms: There were no changes in assumptions or benefit terms since the prior measurement date.

Changes since measurement date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension expense: The Corporation recognized $5,330 of pension expense during 2015.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period. As of the Measurement Date, deferred inflows of resources totaling $906 represent net differences between projected and actual earnings on plan investments. Such amount will be amortized and recognized in earnings in equal amounts over the following four fiscal years. Deferred outflows of $3,703 represent contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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. The Corporation was required to contribute $952 during 2015. Kentucky Retirement System administers this cost-sharing plan and 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, 2015. Settlements have not exceeded insurance coverage.

(Continued)

Note O--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 30, 2015, the date the financial statements were issued.

In August 2015, the Board of Directors authorized the sale of up to $120,000 aggregate principal amount of mortgage-backed securities pledged as security under the Corporation's Resolution. On or about September 14, 2015, the Corporation sold approximately $96,400 of its mortgage-backed securities investments for proceeds of approximately $108,100. The proceeds of the sale of such mortgage-backed securities constitute "Recoveries of Principal" and, as required by the Resolution, will be applied to redeem outstanding bonds of the Corporation. It is expected that such redemptions will occur between October 15, 2015 and November 1, 2015.

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.

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

KENTUCKY HOUSING CORPORATION
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CORPORATION'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
KENTUCKY EMPLOYEES RETIREMENT SYSTEM – NONHAZARDOUS
PRESENTED FOR YEAR INFORMATION IS AVAILABLE
Year Ended June 30, 2015
(Dollars in thousands)

	2015
Corporation's proportion of the net pension liability	0.79%
Corporation's proportionate share of the net pension liability	$ 70,519
Corporation's covered-employee payroll	$ 13,011
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	542.00%
Plan fiduciary net position as a percentage of the total pension liability	22.32%

The amounts presented for each fiscal year were determined as of the prior calendar year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

KENTUCKY HOUSING CORPORATION
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CORPORATION'S EMPLOYER CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM – NONHAZARDOUS
PRESENTED FOR YEAR INFORMATION IS AVAILABLE
Year Ended June 30, 2015
(Dollars in thousands)

	2015
Actuarially determined required contribution	$ 2,250
Actual contributions made	(2,250)
Contribution deficiency (excess)	$ -
Corporation's covered-employee payroll	$ 13,011
Contributions as a percentage of covered-employee payroll	17.29%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

See Independent Auditor's Report.

SUPPLEMENTARY COMBINING INFORMATION
HOUSING REVENUE BOND FUNDS

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF NET POSITION
HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2015
(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	$ 2,815	$ -	$ -	$ 4	$ -	$ -	$ 2,819
Investment securities	17,617	4,802	23,191	5,056	5,610	2,168	58,444
Mortgage-backed securities	13,385	-	-	709	-	-	14,094
Housing mortgage loans	24,909	-	-	-	1,988	-	26,897
Interfund accounts	(15,090)	9,045	5,742	-	286	-	(17)
Total Current Assets	43,636	13,847	28,933	5,769	7,884	2,168	102,237
Noncurrent Assets							
Investment securities	-	-	-	147,578	-	-	147,578
Mortgage-backed securities	330,920	-	-	17,538	-	-	348,458
Housing mortgage loans	551,706	-	-	-	42,537	-	594,243
Real estate ow ned and related receivables	2,304	-	-	-	-	-	2,304
Total Noncurrent Assets	884,930	-	-	165,116	42,537	-	1,092,583
Total Assets	928,566	13,847	28,933	170,885	50,421	2,168	1,194,820
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated decrease in fair value of derivatives - interest rate sw aps	-	-	2,888	-	-	-	2,888
Deferred outflow s related to pension	617	-	-	-	-	-	617
Total Deferred Outflows of Resources	617	-	2,888	-	-	-	3,505
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	63	-	-	-	1	-	64
Accrued interest payable	-	-	15,756	-	-	-	15,756
Revenue bonds - current portion	32,875	-	-	-	-	-	32,875
Total Current Liabilities	32,938	-	15,756	-	1	-	48,695
Noncurrent Liabilities							
Revenue bonds	914,520	-	-	-	-	-	914,520
Other noncurrent liabilities	544	-	-	-	-	-	544
Derivative instruments - interest rate sw aps	-	-	2,920	-	-	-	2,920
Net pension liability	11,750	-	-	-	-	-	11,750
Total Noncurrent Liabilities	926,814	-	2,920	-	-	-	929,734
Total Liabilities	959,752	-	18,676	-	1	-	978,429
DEFERRED INFLOWS OF RESOURCES							
Deferred inflow s related to pension	151	-	-	-	-	-	151
FUND NET POSITION							
Restricted by revenue bond indenture	$ (30,720)	$ 13,847	$ 13,145	$ 170,885	$ 50,420	$ 2,168	$ 219,745

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, 2015
(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	$ 34,336	$ -	$ -	$ -	$ 914	$ -	$ -	$ 35,250
Mortgage-backed securities	16,698	-	-	1,006	-	-	-	17,704
Marketable securities	3	2	3	3,320	1	1	1	3,331
Net (decrease) in fair value of marketable securities	(4,694)	-	-	1,412	-	-	-	(3,282)
Net increase in fair market value of swaps	-	-	186	-	-	-	-	186
Gain on sale of mortgage-backed and marketable securities	1,529	-	-	-	-	-	-	1,529
Other income	975	-	-	-	-	-	-	975
Total Operating Revenues	48,847	2	189	5,738	915	1	1	55,693
Operating Expenses								
Interest on revenue bonds	-	-	37,771	-	-	-	-	37,771
Provision for losses on loans	(71)	-	-	-	-	-	-	(71)
General and administrative	261	-	-	-	-	-	-	261
Mortgage loan servicers' fees	2,174	-	-	-	170	-	-	2,344
Loan origination costs	74	-	-	-	3	-	-	77
Debt issuance costs	876	-	-	-	-	-	-	876
Total Operating Expenses	3,314	-	37,771	-	173	-	-	41,258
Operating Income (Loss)	45,533	2	(37,582)	5,738	742	1	1	14,435
Interfund Transfers	29,032	(9,533)	42,463	1	(2,788)	(1)	(65,244)	(6,070)
Change in Fund Net Position	74,565	(9,531)	4,881	5,739	(2,046)	-	(65,243)	8,365
Fund Net Position, Beginning of Year	(105,285)	23,378	8,264	165,146	52,466	-	67,411	211,380
Fund Net Position, End of Year	$ (30,720)	$ 13,847	$ 13,145	$ 170,885	$ 50,420	$ -	$ 2,168	$ 219,745

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2015
(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	$ 34,336	$ -	$ -	$ -	$ 914	$ -	$ -	$ 35,250
Operating expenses	(2,509)	-	-	-	(173)	-	-	(2,682)
Fundings of housing mortgage loans	(2,879)	-	-	-	(2,337)	-	-	(5,216)
Repayments on housing mortgage loans	82,528	-	-	-	6,389	-	-	88,917
Other, net	(3,989)	4,434	(157)	-	(171)	-	-	117
Net Cash Provided By (Used In) Operating Activities	107,487	4,434	(157)	-	4,622	-	-	116,386
Cash Flows From Noncapital Financing Activities								
Proceeds from issuance of revenue bonds	91,904	-	-	-	-	-	-	91,904
Payments for debt issuance costs	(1,199)	-	-	-	-	-	-	(1,199)
Principal payments on revenue bonds	(61,445)	-	(271,420)	-	-	-	-	(332,865)
Interest payments on revenue bonds	-	-	(43,877)	-	-	-	-	(43,877)
Interfund transfers - loan collections and investment income	(193,869)	124,771	66,087	1	(2,788)	(1)	(1)	(5,800)
Interfund transfers - purchase of mortgage loans	-	-	-	-	-	-	-	-
Interfund transfers - retirement of debt	(48,487)	(134,305)	248,035	-	-	-	(65,243)	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(213,096)	(9,534)	(1,175)	1	(2,788)	(1)	(65,244)	(291,837)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(107,511)	(128,428)	(95,856)	(140,015)	(4,319)	-	(234,263)	(710,392)
Sales of investments and mortgage-backed securities	192,244	133,526	97,185	135,879	2,484	-	299,506	860,824
Gain on the sales of investments and mortgage-backed securities	1,529	-	-	-	-	-	-	1,529
Interest received on investments and mortgage-backed securities	17,030	2	3	4,139	1	1	1	21,177
Net Cash Provided By (Used In) Investing Activities	103,292	5,100	1,332	3	(1,834)	1	65,244	173,138
Net Increase (Decrease) in Cash and Cash Equivalents	(2,317)	-	-	4	-	-	-	(2,313)
Cash and Cash Equivalents, Beginning of Year	5,132	-	-	-	-	-	-	5,132
Cash and Cash Equivalents, End of Year	$ 2,815	$ -	$ -	$ 4	$ -	$ -	$ -	$ 2,819

(Continued)

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2015
(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)	$ 45,533	$ 2	$ (37,582)	$ 5,738	$ 742	$ 1	$ 1	$ 14,435
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Provision for losses on loans	(71)	-	-	-	-	-	-	(71)
Debt issuance costs	876	-	-	-	-	-	-	876
Interest expense on revenue bonds	-	-	37,771	-	-	-	-	37,771
Interest income on mortgage-backed securities	(16,698)	-	-	(1,006)	-	-	-	(17,704)
Interest income on marketable securities	(3)	(2)	(3)	(3,320)	(1)	(1)	(1)	(3,331)
Net increase (decrease) in fair value of marketable securities	4,694	-	-	(1,412)	-	-	-	3,282
Net increase in fair value of swaps	-	-	(186)	-	-	-	-	(186)
Gain on sale of mortgage-backed and marketable securities	(1,529)	-	-	-	-	-	-	(1,529)
Other income	(975)	-	-	-	-	-	-	(975)
Changes in operating assets and liabilities:								
Fundings of housing mortgage loans	(2,879)	-	-	-	(2,337)	-	-	(5,216)
Repayments on housing mortgage loans	82,528	-	-	-	6,389	-	-	88,917
Other, net	(3,989)	4,434	(157)	-	(171)	-	-	117
Net Cash Provided By (Used In) Operating Activities	$ 107,487	$ 4,434	$ (157)	$ -	$ 4,622	$ -	$ -	$ 116,386

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, 2015 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 30, 2015, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to 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 30, 2015