Kentucky Housing Corporation

Financial Statements
June 30, 2013

Kentucky Housing Corporation

Financial Statements

June 30, 2013

TABLE OF C O N T E N T S

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, 2013, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on page 3 through 13 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 financial statements. The combining financial statements on page 45 through 48 and the s*chedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and s*chedule of expenditures of federal awards* are fairly stated, in all material respects, in relation to the 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 27, 2013 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 27, 2013

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, 2013. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Excluding the impact of the net reduction in the fair value of the Corporation's investment assets and interest rate swaps, the net fund position of the Corporation's proprietary funds increased by $6.1 million as a result of fiscal year 2013 operations. When combined with the increase of $13.4 in the net position of the governmental activities and considering the decrease in fair value of investments, the Corporation-wide net position decreased by $10.8 million.

- Continuing low prevailing interest rates during 2013 presented ongoing challenges to profitability. Investment returns for 2013 remained at low levels and the Corporation experienced a reduction of $300 million in program assets, both of which put downward pressure on interest margins.

- The Corporation was able to take advantage of these low rates to successfully complete an economic refunding of $108 million of Housing Revenue Bonds during fiscal 2013. Coupled with prior year refundings, the Corporation significantly reduced interest expense, which more than offset decreases in interest income and resulted in an increase in net interest income in its proprietary funds of $3.3 million.

- As a result of the Corporation's continued limited access to the tax-exempt bond market, the Corporation increased its activities in the Secondary Market Mortgage Purchase program. Sales of loans in the Secondary Market Mortgage Purchase program increased to $147.1 million with gains attributable to the sales totaling $10 million. The total portfolio of loans serviced for others increased to over $300 million.

- The level of loans in default in the Corporation's single-family portfolio, though improved, continues to negatively impact interest earnings and overall Corporate profitability. Overall loan losses recorded for 2013 were $1.6 million.

- Overall, single-family mortgage originations totaled $156 million, with $148.7 million originated in the Secondary Market Purchase program and $7.3 million originated for the indenture, primarily the Housing Trust Fund.

Overview of the Financial Statements

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

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

(Continued)

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

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

Corporation-Wide Financial Statements – Pages 14 and 15

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

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

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

The Corporation-wide financial statements separately present the governmental and business-type activities of the Corporation. The nature of the Corporation's governmental activities is such that substantially all funds flow through the Corporation to ultimate program recipients. As a result, the Balance Sheet related to governmental activities shows a relatively small amount of assets, representing monies received by the Corporation but unexpended for each respective program's purpose. Conversely, the business-type activities of the Corporation create the vast majority of the Corporation's assets, liabilities and net position as reflected in the Statement of Net Position. The overall financial condition of the Corporation can thus be best evaluated through the analysis of business-type activities described in pages 8-12 of this document and under the Proprietary Funds' financial statements on pages 18-22.

(Continued)

The Statement of Activities shows the financial performance of each significant governmental and business-type activity operated by the Corporation over the past year. The expenses and revenues associated with each activity are shown as well as a net amount showing whether revenues exceeded expenses. The net revenue of all governmental activities (after transfers) results in an increase (decrease) in the fund net position that is to be expended for program purposes. The net revenue (profit) of all business-type activities results in an increase in the Fund Net Position (wealth) of the Corporation. The combined net position decreased by $10.8 for the year ended June 30, 2013. Table 1 shows condensed financial information from the Statement of Net Position:

Table 1
Statement of Net Position
(in millions)

	Gover Activit		Busines Activitie		Total Corporat	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Current assets	$35.4	$ 18.1	$ 310.0	$ 582.4	$ 345.4	$ 600.5
Non-current assets	-	-	1,543.4	1,781.6	1,543.4	1,781.6
Total Assets	35.4	18.1	1,853.4	2,364.0	1,888.8	2,382.1
Total Deferred Outflows of Resources	-	-	10.4	15.0	10.4	15.0
Current liabilities	(11.1)	(7.2)	(165.6)	(358.3)	(176.7)	(365.5)
Non-current liabilities	-	-	(1,414.4)	(1,712.7)	(1,414.4)	(1,712.7)
Total Liabilities	(11.1)	(7.2)	(1,580.0)	(2,071.0)	(1,591.1)	(2,078.2)
Net Position:						
Invested in capital assets	-	-	3.8	4.0	3.8	4.0
Restricted	24.3	10.9	221.6	250.3	245.9	261.2
Unrestricted	-	-	58.4	53.7	58.4	53.7
Net Position	$ 24.3	$ 10.9	$ 283.8	$ 308.0	$ 308.1	$ 318.9

The net position of the governmental activities increased from $10.9 million to $24.3 million. All assets of the Corporation's governmental activities are restricted for program purposes. Assets subject to immediate disbursement are classified as current liabilities and remaining assets are classified as restricted net position. The increase in net position indicates that revenues received from governmental activities were more than program grants, operating expenditures and transfers.

The net position of the Corporation's business-type activities decreased from $308.0 million to $283.8 million as a result of a $7.8 million decrease in the gains on sales of mortgage-backed and marketable securities and loans held for sale, a $3.3 million increase in net interest income, a $35.1 million decline in the increase in the fair market value of marketable securities, a $.3 million increase in the provision for loan losses, and a $1.1 million increase in other operating income and expenses. Comparisons in the changes in net position between fiscal years 2012 and 2013 provide additional insight on the Corporation's operating performance. Table 2 shows condensed Statement of Activities financial information.

(Continued)

Table 2
Statement of Activities
(in millions)

	Governmental Activities		Business-Type Activities		Total Corporation	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Revenues						
Operating revenues	$ 12.6	$ 14.0	$ 70.2	$ 129.3	$ 82.8	$ 143.3
Operating grants	226.7	243.1	-	-	226.7	243.1
Total Revenues	239.3	257.1	70.2	129.3	309.5	386.4
Program Expenses						
Rental subsidy administration	148.5	149.7	-	-	148.5	149.7
Weatherization program	6.8	31.1	-	-	6.8	31.1
HOME program	17.3	20.7	-	-	17.3	20.7
Unemployment Bridge program	28.2	19.1	-	-	28.2	19.1
Treasury Housing Credit program	-	12.5	-	-	-	12.5
Other federal and state programs	23.1	22.9	-	-	23.1	22.9
Administrative	-	-	10.5	12.5	10.5	12.5
Bond financed loan programs	-	-	73.9	93.4	73.9	93.4
Loan servicing	-	-	8.5	8.8	8.5	8.8
Other loan and housing Credit programs	-	-	3.5	2.6	3.5	2.6
Total Program Expenses	223.9	256.0	96.4	117.3	320.3	373.3
Excess before transfers	15.4	1.1	(26.2)	12.0	(10.8)	13.1
Transfers	(2.0)	(2.6)	2.0	2.6	-	-
Increase (Decrease) in Net Position	$ 13.4	$ (1.5)	$ (24.2)	$ 14.6	$(10.8)	$ 13.1

Total revenues for governmental activities were $239.3 million during fiscal year 2013, a $17.8 million decrease from the $257.1 million in revenues in fiscal year 2012. The decrease was due to a $16.4 million decrease in operating grants and a $1.4 million decrease in charges for services. Operating grants include federal funding for Section 8 ($143.7 million), HOME ($16.4 million), Unemployment Bridge ($33.7 million) and Weatherization ($6.2 million), which represent 88% of total operating grant revenues.

The Corporation receives fees or charges for services for federal program administration. These revenues decreased from $14.0 million in 2012 to $12.6 million during fiscal year 2013. 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 2013, $12.6 million in fee revenue was received and $10.6 million in operating expenses were incurred thereby enabling a $2.0 million transfer, or a $.6 million decrease from the $2.6 million similarly derived and transferred in 2012.

(Continued)

Program expenses for governmental activities decreased during 2013 by $32.1 million. Program expenses for governmental activities during 2013 were $223.9 million, comprised of grants of $213.3 million and operating expenses of $10.6 million, as discussed above. In fiscal 2012, total program expenses were $256.0 million with grants of $244.6 million and operating expenses of $11.4 million.

Total revenues for business-type activities were $70.2 million during fiscal year 2013, a $59.1 million decrease from the $129.3 million of revenues in fiscal year 2012. For fiscal 2013, gains on the sale of mortgage-backed and marketable securities and loans held for sale decreased $7.8 million, interest earnings from loans, mortgage-backed securities and other investments decreased $14.0 million, other income decreased $2.1 million, the change in fair market value of securities decreased $35.1 million, and the change in the fair market value of swaps did not change.

Program expenses for business-type activities decreased $20.9 million from $117.3 million in 2012 to $96.4 million in 2013. Bond financed loan program expenses decreased by $19.5 million, administrative expenses, or expenses not directly attributable to programs, decreased by $2.0 million, loan servicing expenses decreased by $.3 million and other loan program expenses increased by $.9 million. The line items related to these expenses are presented in detail in Table 2.

The excess of expenses over revenues for business-type activities was $26.2 million in 2013 compared to $12.0 million excess of revenues over expenses in 2012, a decrease of $38.2 million from 2012. As described above and in additional detail under "Proprietary Funds," the increase is due to a $59.1 million decrease in revenues and a $20.9 million decrease in expenses. Transfers-in were $2.0 million in 2013 compared to $2.6 million in 2012, a decrease of $.6 million. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities net position of $38.8 million.

Fund Financial Statements

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

Governmental Funds – Pages 16 and 17

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

The current assets of each governmental fund are held pending disbursement for program purposes. Most program disbursements are in the form of a grant or subsidy to program recipients. However, certain disbursements under the Affordable Housing Trust Fund, the HOME Program and the Treasury Housing Credit program are in the form of loans. Because of the extended loan terms, minimal interest rates and the credit risks associated with these loans, loan loss provisions have been established at 100%. As of June 30, 2013, the Corporation retained $35.4 million for program purposes and had $11.1 million classified as program advances resulting in a total of $24.3 million classified as restricted fund balances.

(Continued)

During fiscal year 2013, the Affordable Housing Trust Fund had revenues greater than expended funds of $1.8 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, $143.7 million, or transferred to proprietary funds, $2.0 million. Similarly, all HOME program revenues, $17.3 million, were expensed in an equal amount in 2013, as were Weatherization revenues of $6.8 million. Revenues of the Unemployment Bridge program exceeded expenses by $9.1 million, thereby increasing the fund net position of the Unemployment Bridge funds. Finally, Other Housing Funds revenues exceeded expenses by $2.5 million, thereby increasing the fund net position of Other Housing Funds.

Proprietary Funds – Pages 18 through 22

A significant portion of the Corporation's financial resources and activities is reported in the proprietary fund financial statements. Proprietary funds account for over 98% of corporate assets, 85% of non-grant revenues, 90% 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 91% of the total assets, 69% of total revenues, and 75% of the fund net position of proprietary fund combined totals.

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

During 2012 and continuing throughout 2013, the Corporation has supplemented the bond program with the Secondary Market Mortgage Purchase program. This program allows the Corporation to fund mortgage loans outside the bond indenture and at 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"). These securities are then sold on the "TBA" market. The term "TBA" is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are "to be announced" just a few days before the established trade settlement date. 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.

(Continued)

Loans sold pursuant to the Secondary Market Mortgage Purchase program are sold with servicing retained by the Corporation but at servicing fee rates much lower than the interest rate spread enjoyed on 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.

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

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

	2013	2012	Change
Program-Purpose Assets:			
Mortgage loans and real estate owned	$ 844.5	$ 985.8	$ (141.3)
Mortgage-backed securities	597.1	755.3	(158.2)
Housing construction loans	4.0	3.0	1.0
Other loans	10.7	11.6	(.9)
Total Program-Purpose Assets	1,456.3	1,755.7	(299.4)
Cash and Investments	367.5	578.9	(211.4)
Loans held for sale	16.1	16.2	(.1)
Other assets	13.5	13.2	.3
Total Assets	1,853.4	2,364.0	(510.6)
Total Deferred Outflows of Resources	10.4	15.0	(4.6)
Bonds payable	(1,433.9)	(1,911.4)	(477.5)
Other liabilities	(146.1)	(159.6)	(13.5)
Total Liabilities	(1,580.0)	(2,071.0)	(491.0)
Fund Net Position	$ 283.8	$ 308.0	$ (24.2)

Mortgage loans, mortgaged-backed securities, housing construction loans and other loans decreased by $299.4 million or 17% during 2013. Total program-purpose assets at June 30, 2013 were $1.46 billion. The decrease was the result of mortgage loan funding of $228.9 million, mortgage loan repayments of $191.9 million, conversion of mortgage loans to mortgage-backed securities of $175.5 million, a loan loss provision increase of $1.8 million, an accrued mortgage loan interest decrease of $1.0 million, plus net decreases in mortgage-backed securities, housing construction loans and other loans of $158.1 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, 2013, the Debt Service Reserve requirement was $114.2 million and the amount on deposit was $185.1 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.) Subsequent to June 30, 2013, as

(Continued)

permitted under the Resolution, the Corporation used $25 million of the excess funds in the Debt Service Reserve fund to retire outstanding bonds and to fund additional loans in the Housing Trust Fund. In addition, the Corporation has reserved $30 million of the remaining excess 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 2013, the Corporation issued short- and long-term bonds and incurred other short-term debt (lines of credit) in the amount of $226.8 million. This includes Housing Revenue Bonds issued of $107.9 million. Total bond and line-of-credit principal repayments was $694.8 million and the change in net unamortized bond premium was $1.3 million. As a result of this activity, bonds outstanding decreased $477.5 million and short-term debt increased by $8.2 million. The Corporation's Housing Revenue Bond Indenture is rated AAA by Standard & Poor's with a stable outlook and is rated Aaa by Moody's with a negative outlook.

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)

	2013	2012	Change
Interest income--loans	$ 47.3	$ 53.6	$ (6.3)
Interest income--mortgage-backed securities	31.1	38.7	(7.6)
Interest income--investment securities	1.8	1.9	(0.1)
Total interest income	80.2	94.2	(14.0)
Interest expense	(65.2)	(82.5)	17.3
Net Interest income	15.0	11.7	3.3
Increase (decrease) in fair value of marketable securities	(30.8)	4.3	(35.1)
Increase (decrease) in fair market value of swaps	0.5	0.5	-
Gains on sales of mortgage-backed and marketable securities and loans held for sale	10.3	18.1	(7.8)
Provision for loan losses	(1.6)	(1.3)	(0.3)
Net Investment Income	(6.6)	33.3	(39.9)
Other income	10.0	12.1	(2.1)
General and administrative expenses	(20.3)	(23.5)	3.2
Other expenses	(9.3)	(9.9)	0.6
Interfund transfers	2.0	2.6	(0.6)
Changes in Fund Net Position	$ (24.2)	$ 14.6	$ (38.8)

(Continued)

Net position decreased by $24.2 million in 2013, compared to a $14.6 million increase for 2012. The decrease is attributable to several factors. Gains on sales of mortgage-backed and other marketable securities and loans held for sale decreased from $18.1 million in 2012 to $10.3 million in 2013, a decrease of $7.8 million. The fair value of investment securities decreased by $30.8 million in 2013 compared to a $4.3 million increase in 2012, representing an overall decrease of $35.1 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 $3.3 million from $11.7 million in 2012 to $15.0 million in 2013. Other (fee) income decreased $2.1 million from $12.1 million in 2012 to $10.0 million in 2013. The change in fair market value of swaps was a $.5 million increase in both 2012 and 2013. The provision for loan losses increased $.3 million, from $1.3 million in 2012 to $1.6 million in 2013.

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs and servicing release premiums, decreased by $.6 million from $9.9 million in 2012 to $9.3 million in 2013. General and administrative expenses decreased by $3.2 million from $23.5 million in 2012 to $20.3 million in 2013.

Finally, changes in fund net position were impacted by interfund transfers of $2.0 million, a decrease of $.6 million from the $2.6 million transferred in 2012. (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 continues to react to the ongoing overall reduction 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.

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

Perhaps the single most important financial issue facing the Corporation is the scheduled increase in the Corporation's future pension funding requirement. The Corporation participates in the Kentucky Employees Retirement System ("KERS") and has always paid into the plan at the state mandated required contribution rate. That pay-in rate has been determined to have been well short of the rate necessary to fully fund the plan's pension obligations, causing a substantial underfunded condition. Due to the significant underfunded status of the pension plan and the revised funding schedule required by recent legislation, the Corporation's pension contribution is estimated to increase in Fiscal 2015 by over $1.5 million and remain at similar levels for the foreseeable future. Funding of such an increase will require funds that would otherwise be available to the Corporation in fulfillment

(Continued)

of its mission. Management is aggressively exploring actions to minimize the impact to the Corporation of this increase.

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

Asset default poses a smaller risk to the Corporation because of conservative bond covenants in effect. All investment securities are either instruments of the federal government or federal agencies or money market funds fully collateralized by federal government or agency obligations. Further, substantial portions of mortgage loans held in the portfolio are insured by federal agencies. GNMA MBS's with a book value of $387.1 million are guaranteed as to principal and interest by GNMA while Fannie Mae MBS's with a book value of $168.7 million are guaranteed as to principal and interest by Fannie Mae. Additional information on the Corporation's MBS's and allowance for loan losses can be found in Notes C, D, E and F in the "Notes to Financial Statements".

The Corporation successfully undertook economic refundings through the issuance of $107.9 million in housing revenue bonds (2013 Series A and B). A second refunding (2013 Series C, D, E, F and G) totaling $99.9 million closed in July 2013. These refunding will result in substantial savings of interest expense (net present value of $16.0 million) over the life of the bonds.

Continued shrinkage of the bond indenture portfolio, with its relatively high interest rate spread of 1.125%, will continue to put pressure on net interest margin. As previously discussed, the same market conditions giving rise to loan payoffs and bond indenture portfolio shrinkage may create additional economic refunding opportunities whereby the interest expense on the remaining bond debt may be able to be reduced. As demonstrated in recent refundings, the Corporation's credit strength continues to be well received by both the retail and institutional investment communities. While this technique will increase the Corporation's interest rate spread, the interest margin may only incrementally improve due to the continuing decrease in balances.

As of June 30, 2013, the total amount of variable rate debt to total debt was $194.3 million of the $1.43 billion total long-term debt portfolio, or 13.6%. The Corporation mitigates interest rate risk with interest rate swaps on $152.8 million of its variable rate debt. Only one swap, 2006 Series W, has been deemed ineffective under GASB 53. The Corporation continues to manage its balance sheet with redemption and bond structure strategies.

Kentucky's economic environment continues to slowly improve, though high unemployment and still depressed housing values subject the Corporation's balance sheet to ongoing, though decreasing, stress. The Corporation continues to see reductions in loan delinquency and foreclosures and through use of more aggressive efforts to work with delinquent borrowers, has seen quicker resolution of defaults and improved use of loss mitigation.

(Continued)

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 and the addition of new products and services 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, 2013. 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, 2013
(Dollars in thousands)

ASSETS	Governmental Activities	Business-Type Activities	Combined Totals
Current Assets			
Cash and cash equivalents	$ 11,665	$ 66,799	$ 78,464
Investment securities	19,848	166,608	186,456
Mortgage-backed securities	-	17,919	17,919
Housing mortgage loans held for sale	-	16,112	16,112
Housing mortgage loans	-	29,383	29,383
Housing construction loans	-	3,973	3,973
Other loans	-	825	825
Accounts receivable and other assets	4,655	7,661	12,316
Interfund accounts	(716)	716	-
Total Current Assets	35,452	309,996	345,448
Noncurrent Assets			
Investment securities	-	134,057	134,057
Mortgage-backed securities	-	579,167	579,167
Housing mortgage loans	-	810,377	810,377
Other loans	-	9,837	9,837
Real estate owned and related receivables	-	4,711	4,711
Capital assets	-	3,827	3,827
Other noncurrent assets	-	1,448	1,448
Total Noncurrent Assets	-	1,543,424	1,543,424
Total Assets	35,452	1,853,420	1,888,872
Deferred Outflows of Resources			
Accumulated decrease in fair value of derivatives - interest rate swaps	-	10,421	10,421
LIABILITIES			
Current Liabilities			
Lines of credit	-	40,030	40,030
Accounts payable and other liabilities	11,141	1,613	12,754
Accrued interest payable	-	27,682	27,682
Escrows and project reserves	-	51,585	51,585
Revenue bonds, due within one year	-	44,710	44,710
Total Current Liabilities	11,141	165,620	176,761
Noncurrent Liabilities			
Revenue bonds, due after one year	-	1,389,237	1,389,237
Other noncurrent liabilities	-	14,286	14,286
Derivative instruments - interest rate swaps	-	10,942	10,942
Total Noncurrent Liabilities	-	1,414,465	1,414,465
Total Liabilities	11,141	1,580,085	1,591,226
NET POSITION			
Invested in capital assets	-	3,827	3,827
Restricted by			
Revenue bond indenture	-	214,129	214,129
Enabling legislation	-	7,403	7,403
Program requirements	24,311	-	24,311
Unrestricted	-	58,397	58,397
Net Position	$ 24,311	$ 283,756	$ 308,067

See Notes to Financial Statements.

Kentucky Housing Corporation
Corporation-Wide Statement of Activities
Year Ended June 30, 2013
(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 subsidy administration	$143,713	$ 4,788	$ 6,755	$ 143,713	$ 1,967	$	$ 1,967
HOME program	16,400	918	918	16,400	-	-	-
Weatherization	6,211	609	609	6,211	-	-	-
Unemployment Bridge	24,587	3,610	3,610	33,729	9,142	-	9,142
Other federal and state housing programs	22,347	757	757	26,591	4,244	-	4,244
Total Governmental Activities	213,258	10,682	12,649	226,644	15,353	-	15,353
Business-Type Activities							
Administrative	1,503	8,946	581	-	-	$ (9,868)	(9,868)
Bond financed loan programs	-	73,945	48,805	-	-	(25,140)	(25,140)
Loan servicing	-	8,499	8,051	-	-	(448)	(448)
Other loan and housing credit programs	-	3,529	12,803	-	-	9,274	9,274
Total Business-Type Activities	1,503	94,919	70,240	-	-	(26,182)	(26,182)
Total Activities	$214,761	$ 105,601	$ 82,889	$ 226,644	15,353	(26,182)	(10,829)
Transfers					(1,967)	1,967	-
Change in Net Position					13,386	(24,215)	(10,829)
Net Position, Beginning of Year					10,925	307,971	318,896
Net Position, End of Year					$ 24,311	$ 283,756	$ 308,067

See Notes to Financial Statements.

Kentucky Housing Corporation
Balance Sheet – Governmental Funds
June 30, 2013
(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	$ 3,785	$ 2,229	$ -	$ 5	$ 1,788	$ 100	$ 3,758	$ 11,665
Investment securities	4,378	-	-	-	-	15,398	72	19,848
Accounts receivable and other assets	-	1,475	-	492	77	-	2,611	4,655
Interfund accounts	-	(73)	-	(39)	(358)	-	(246)	(716)
Total Current Assets	8,163	3,631	-	458	1,507	15,498	6,195	35,452
Noncurrent Assets								
Program loans	11,677	104,058	62,372	-	-	41,274	2,077	221,458
Less loan loss provision	(11,677)	(104,058)	(62,372)	-	-	(41,274)	(2,077)	(221,458)
Total Noncurrent Assets	-	-	-	-	-	-	-	-
Total Assets	$ 8,163	$ 3,631	$ -	$ 458	$ 1,507	$ 15,498	$ 6,195	$ 35,452
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	$ -	$ 3,631	$ -	$ 458	$ 1,507	$ 3,042	$ 2,503	$ 11,141
FUND BALANCE								
Restricted by program requirements	8,163	-	-	-	-	12,456	3,692	24,311
Total Liabilities and Fund Balance	$ 8,163	$ 3,631	$ -	$ 458	$ 1,507	$ 15,498	$ 6,195	$ 35,452

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Revenues, Expenditures and Changes in Fund Net Position – Governmental Funds
Year Ended June 30, 2013
(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	$ -	$ 918	$ 609	$ 6,755	$ 3,610	$ 757	$ 12,649
Pass-through grant revenues	5,798	16,400	6,211	143,713	33,729	20,793	226,644
Total Revenues	5,798	17,318	6,820	150,468	37,339	21,550	239,293
Expenditures							
General and administrative	-	918	609	4,788	3,610	757	10,682
Pass-through grant expenditures	4,027	16,400	6,211	143,713	24,587	18,320	213,258
Total Expenditures	4,027	17,318	6,820	148,501	28,197	19,077	223,940
Revenues in Excess of / (Less Than) Expenditures	1,771	-	-	1,967	9,142	2,473	15,353
Interfund Transfers	-	-	-	(1,967)	-	-	(1,967)
Change in Fund Balance	1,771	-	-	-	9,142	2,473	13,386
Fund Balance, Beginning of Year	6,392	-	-	-	3,314	1,219	10,925
Fund Balance, End of Year	$ 8,163	$ -	$ -	$ -	$ 12,456	$ 3,692	$ 24,311

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Net Position – Proprietary Funds – Continued
June 30, 2013
(Dollars in thousands)

ASSETS	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Current Assets				
Cash and cash equivalents	$ 59,471	$ 4,072	$ 3,256	$ 66,799
Investment securities	3,087	162,957	564	166,608
Mortgage-backed securities	-	17,919	-	17,919
Housing mortgage loans held for sale	16,112	-	-	16,112
Housing mortgage loans	2,274	27,109	-	29,383
Housing construction loans	1,063	-	2,910	3,973
Other loans	825	-	-	825
Accounts receivable and other assets	7,661	-	-	7,661
Interfund accounts	91	(175)	800	716
Total Current Assets	90,584	211,882	7,530	309,996
Noncurrent Assets				
Investment securities	-	134,057	-	134,057
Mortgage-backed securities	-	579,167	-	579,167
Housing mortgage loans	61,914	748,463	-	810,377
Other loans	9,837	-	-	9,837
Real estate owned and related receivables	-	4,711	-	4,711
Capital assets	3,827	-	-	3,827
Other noncurrent assets	1,448	-	-	1,448
Total Noncurrent Assets	77,026	1,466,398	-	1,543,424
Total Assets	167,610	1,678,280	7,530	1,853,420
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of derivatives - interest rate swaps	-	10,421	-	10,421

Continued

Kentucky Housing Corporation
Statement of Net Position – Proprietary Funds – Continued
June 30, 2013
(Dollars in thousands)

LIABILITIES	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Current Liabilities				
Lines of credit	$ 40,030	$ -	$ -	$ 40,030
Accounts payable and other liabilities	1,022	591	-	1,613
Accrued interest payable	-	27,682	-	27,682
Escrows and project reserves	51,585	-	-	51,585
Revenue bonds, due within one year	-	44,710	-	44,710
Total Current Liabilities	92,637	72,983	-	165,620
Noncurrent Liabilities				
Revenue bonds, due after one year	-	1,389,237	-	1,389,237
Other noncurrent liabilities	12,749	1,410	127	14,286
Derivative instruments - interest rate swaps	-	10,942	-	10,942
Total Noncurrent Liabilities	12,749	1,401,589	127	1,414,465
Total Liabilities	105,386	1,474,572	127	1,580,085
NET POSITION				
Invested in capital assets	3,827	-	-	3,827
Restricted by				
Revenue bond indenture	-	214,129	-	214,129
Enabling legislation	-	-	7,403	7,403
Unrestricted	58,397	-	-	58,397
Net Position	$ 62,224	$ 214,129	$ 7,403	$ 283,756

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
Year Ended June 30, 2013
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Operating Revenues				
Interest and fee income				
Housing mortgage and construction loans	$ 2,811	$ 44,355	$ 97	$ 47,263
Mortgage-backed securities	34	31,086	-	31,120
Marketable securities	173	1,641	-	1,814
Net (decrease) in fair value of marketable securities	-	(30,769)	-	(30,769)
Net increase in fair market value of swaps	-	477	-	477
Gains on sales of mortgage-backed and marketable securities	9,885	418	-	10,303
Fees, charges and other income	8,994	1,038	-	10,032
Total Operating Revenues	21,897	48,246	97	70,240
Operating Expenses				
Interest on revenue bonds and notes payable	298	64,908	-	65,206
Provision for losses on loans	525	1,042	59	1,626
General and administrative	20,121	191	-	20,312
Housing assistance grants	1,503	-	-	1,503
Mortgage loan servicers' fees	26	2,944	-	2,970
Loan origination costs	3,246	216	-	3,462
Debt issuance costs	-	1,343	-	1,343
Total Operating Expenses	25,719	70,644	59	96,422
Operating Income (Loss)	(3,822)	(22,398)	38	(26,182)
Interfund Transfers	8,406	(6,439)	-	1,967
Change in Net Position	4,584	(28,837)	38	(24,215)
Net Position, Beginning of Year	57,640	242,966	7,365	307,971
Net Position, End of Year	$62,224	$ 214,129	$ 7,403	$ 283,756

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2013
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 2,807	$ 44,355	$ 248	$ 47,410
Gain on sales of loans held for sale	8,635	-	-	8,635
Fees, charges and other income	8,724	-	-	8,724
Personnel costs	(14,481)	-	-	(14,481)
Operating expenses	(7,029)	(3,160)	-	(10,189)
Housing assistance grants	(1,503)	-	-	(1,503)
Fundings of housing mortgage loans	(216,084)	(12,894)	-	(228,978)
Repayments on housing mortgage loans	34,977	156,929	-	191,906
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	166,253	9,301	-	175,554
Net changes in housing construction loans	(472)	-	(588)	(1,060)
Other, net	(1,433)	2,358	1,025	1,950
Net Cash Provided By (Used In) Operating Activities	(19,606)	196,889	685	177,968
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit and issuance of revenue bonds	118,950	107,860	-	226,810
Payments for debt issuance costs	-	(1,194)	-	(1,194)
Principal payments on lines of credit and revenue bonds	(110,801)	(584,025)	-	(694,826)
Interest payments on revenue bonds and lines of credit	(298)	(75,460)	-	(75,758)
Changes in escrows and project reserves	(6,632)	-	-	(6,632)
Interfund transfers	8,406	(6,439)	-	1,967
Net Cash Provided By (Used In) Noncapital Financing Activities	9,625	(559,258)	-	(549,633)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(273)	-	-	(273)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(314,156)	(1,106,251)	-	(1,420,407)
Conversion of mortgage loans to mortgage-backed securities	-	(9,301)	-	(9,301)
Sales of investments and mortgage-backed securities	317,154	1,443,372	-	1,760,526
Gain on sales of investments and mortgage-backed securities	-	418	-	418
Interest received on investments and mortgage-backed securities	207	33,480	-	33,687
Net Cash Provided By (Used In) Investing Activities	3,205	361,718	-	364,923
Net Increase (Decrease) in Cash and Cash Equivalents	(7,049)	(651)	685	(7,015)
Cash and Cash Equivalents, Beginning of Year	66,520	4,723	2,571	73,814
Cash and Cash Equivalents, End of Year	$ 59,471	$ 4,072	$ 3,256	$ 66,799

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Cash Flows – Proprietary Funds--Continued
Year Ended June 30, 2013
(Dollars in thousands)

	General Funds	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)	$ (3,822)	$ (22,398)	$ 38	$ (26,182)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(1,250)	-	-	(1,250)
Provision for losses on loans	525	1,279	59	1,863
Debt issuance costs	-	1,343	-	1,343
Amortization of intangible asset	200	-	-	200
Depreciation expense	409	-	-	409
Interest expense on revenue bonds and lines of credit	298	64,908	-	65,206
Interest income on mortgage-backed securities	34	(31,086)	-	(31,052)
Interest income on marketable securities	173	(1,641)	-	(1,468)
Net (increase) decrease in fair value of marketable securities	-	30,769	-	30,769
Net (increase) decrease in fair value of swaps	-	(477)	-	(477)
Gain on sale of mortgage-backed and marketable securities	-	(418)	-	(418)
Other income	-	(1,038)	-	(1,038)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(216,084)	(12,894)	-	(228,978)
Repayments on housing mortgage loans	34,977	156,929	-	191,906
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	166,253	9,301	-	175,554
Housing construction loans	(472)		(588)	(1,060)
Other, net	(847)	2,312	1,176	2,641
Net Cash Provided By (Used In) Operating Activities	$ (19,606)	$ 196,889	$ 685	$ 177,968

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 to first-time home buyers meeting certain low-to-moderate income guidelines. Substantially all assets are held by banks as trustees and are pledged as collateral for the Corporation's bonds. The Corporation also administers various programs for federal and state agencies. Funds held for these programs are restricted as to use by statutes, contracts or other agreements.

Note B--Summary of Significant Accounting Policies

Basis of Presentation: The Corporation's financial statements are prepared in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments* and related statements, and are comprised of three components: 1) Corporation-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Corporation-wide financial statements are comprised of a statement of net position and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements reflect all of the assets, liabilities, revenues, expenses, gains and losses of governmental and business-type activities. The governmental activities reflect the administration of the various programs for the Commonwealth and the federal government. The business-type activities include single and multi-family loan programs and other lender services. The Corporation follows GASB pronouncements as codified under GASB 62, which was adopted in the prior year.

The Corporation's fund financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities, which provide that accounting systems be organized by funds to account for specific activities consistent with legal and operating requirements.

Governmental Funds: The governmental funds financial statements are prepared utilizing the current financial economic resources measurement focus and the modified accrual basis of accounting, and include the activities of administering rental subsidy and other federal and state housing programs for the Commonwealth and U.S. Department of Housing and Urban Development (“HUD”). Revenues considered susceptible to accrual are those revenues that are both measurable and available, usually grant revenue. In substance, “available” means that the item is a resource that can be used to finance the governmental operations within a 60 day period.

(Continued)

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

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

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

HOME Program: This fund accounts for resources made available from the federal government through its Home Investment Partnerships Program ("HOME") to help local governments, nonprofits, private developers, community housing development organizations and individuals to provide safe, decent and affordable housing. Resources are made available to these entities and individuals through both grants and loans.

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

Weatherization Assistance: This fund accounts for resources made available from the federal government to assist eligible individuals in reducing their utility costs and improving the safety of their homes through energy efficiency measures.

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

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

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

(Continued)

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

Proprietary Funds: Financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the loan and other lender services are presented as proprietary funds. The Corporation's proprietary funds are:

General Funds: These funds account for (1) activities related to the development and administration of corporate financial programs, (2) corporate-owned assets and (3) any activities and related revenues and expenses of the Corporation not applicable to the other funds, including the Secondary Market Mortgage Purchase program. Fund net position is generally unrestricted.

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

Housing Development Fund: This fund accounts for construction loan proceeds for the production of both single-family and multi-family residential loans, as well as any investments made with proceeds currently not loaned. Fund net position is restricted to use within the fund by the enabling legislation that created the fund. This fund was created by the same enabling legislation as the Corporation as previously disclosed in Note A.

<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 D). The Corporation also securitized a large portion of its government insured housing mortgage loans by securitizing them 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. 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.

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 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 activities that do not meet the definition of "restricted" or "invested in capital assets."

Governmental Funds Net Position Classification Policies and Procedures: Due to the fact that the Corporation's governmental funds account for intragovernmental revenues received under the terms of grant agreements and the related grant expenditures, all governmental fund activities are classified as restricted; therefore, the Corporation has not adopted a written policy regarding the classification of governmental fund net position categories.

(Continued)

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

Interfund Eliminations: Interfund receivables and payables arising primarily from allocations of administrative charges among the appropriate funds, and are eliminated in the governmental and business-type activities columns of the Corporation-wide statement of net position.

Debt Issuance Costs and Bond Premiums and Discounts: Debt issuance costs are expensed in the year the debt is incurred. Bond premiums and discounts on revenue bonds are amortized by the effective interest method over the term of the related debt. Revenue bonds payable are reported net of the applicable bond premium or discount.

Debt Refundings: The Corporation accounts for debt refundings in accordance with GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Program Revenues: Program revenues in the Corporation-wide statement of activities are reported in two categories including (1) charges for services and (2) program-specific operating grants and contributions. Charges for services include all revenues from loans, investments, servicing, financing, and program administration fees received in connection with administering the Corporation's various loan programs. Program-specific operating grants and contributions include revenues from mandatory and voluntary nonexchange transactions with other governments and organizations that are restricted for use in a particular program and interest earned on unspent grant proceeds. The Corporation's policy is to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

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

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

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

(Continued)

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

Implementation of Accounting Standards: The Corporation has determined that GASB Statement No. 61, *The Financial Reporting Entity: Ombnibus*, effective for the fiscal year ending June 30, 2013, will have no effect on its financial statements.

GASB standards that are under evaluation include:

- GASB Statement No. 67*, Financial Reporting for Pension Plans* is effective for the fiscal year ending June 30, 2014, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* is effective for the fiscal year ending June 30, 2015, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* is effective for the year ending June 30, 2015 and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* is effective for the year ending June 30, 2014. The Corporation has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

Note C--Cash, Cash Equivalents and Investments

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

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

Cash and Cash Equivalents: At June 30, 2013, the carrying amount of the Corporation's cash and cash equivalents was $78,464 and the bank balance was $76,019. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $76,019 bank balance, $32,249 was covered by federal depository insurance and $43,770 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.

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

(Continued)

(Dollars in thousands)

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

Investment and Mortgage-Backed Securities: At June 30, 2013 the Corporation had the following:

Investment Type		**Fair Value**	**Effective Duration (in Years)**
U.S. Treasurys	$	16,118	5.27
U.S. government-sponsored enterprises		117,939	5.23
Mortgage-backed securities		597,086	3.21
Certificates of deposit		659	1.11
Money market funds		185,797	0.00
Total Investment and Mortgage-Backed Securities		917,599	
Less amounts shown as current assets		204,375	
Noncurrent Investment and Mortgage-Backed Securities	$	713,224	
Portfolio effective duration			2.85

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.

(Continued)

(Dollars in thousands)

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

Credit Risk: The Corporation's investment policy defines the types of investments available to the Corporation. Investments, including the underlying securities for money market funds, are held by the Corporation's trustee in the Corporation's name. The Corporation's investments are rated as follows by Moody's Investors Service at June 30, 2013:

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, 2013 consist of the following:

Issuer	**Fair Value**	**Percentage of Portfolio**
GNMA	$ 413,911	45%
Dreyfus	185,297	20%
Fannie Mae	183,175	20%
U.S. government-sponsored enterprises	117,939	13%

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 $387,093 as of June 30, 2013. The performance of the GNMA securities is guaranteed by GNMA, though as servicer of the GNMA pools, the Corporation is exposed to minimal residual risk on the underlying loans in the event, that upon default of a loan, the insurance or guarantee received is insufficient to fully reimburse the Corporation.

The Fannie Mae investments consist of mortgage-backed securities backed by loans originated by the Corporation and then formed into securities, and had a book value of $168,660 as of June 30, 2013. Although performance of the Fannie Mae securities is guaranteed by Fannie Mae, the Corporation has retained full recourse risk with respect to $22,021 of the underlying loans and recourse on an additional $31,069 of loans subject to a stop loss agreement with Fannie Mae. The remaining $115,569 of underlying loans is without recourse to the Corporation.

(Continued)

(Dollars in thousands)

Note D--Housing Mortgage Loans

At June 30, 2013, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$ 737,592
Multifamily (B)	36,004
Total Housing Revenue Bond Funds	773,596
General Funds (C)	68,682
Total Principal	842,278
Add accrued interest receivable on loans	3,702
Total Principal and Accrued Interest	845,980
Less allowance for loan losses	6,220
Net Housing Mortgage Loans	839,760
Less amount shown as current assets	29,383
Noncurrent Housing Mortgage Loans	$ 810,377

Additional information related to loans includes:

Note (A) Single-family includes $706,256 in federally insured or guaranteed loans, $17,339 of non-insured loans with initial loan-to-value ratios less than 90%, and $13,997 of loans covered by private mortgage insurance.

Note (B) Multifamily includes $30,820 in federally insured or guaranteed loans and $5,184 in non-insured loans.

Note (C) General Funds include $24,006 in federally insured or guaranteed loans and $44,676 in non-insured loans.

Note E—Other Loan Related Activities

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 $999.

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 $1,555.

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, 2013, the Corporation is committed to make single-family mortgage loans and housing construction loans totaling $42,071 and $3,219, respectively. The Corporation had $47,642 in outstanding commitments to sell single-family loans at June 30, 2013.

(Continued)

(Dollars in thousands)

Note F--Capital Assets

Major classes of capital assets at June 30, 2013 and activity during the year follows:

Business-Type Activities	Balance July 1, 2012	Additions	Retirements and Dispositions	Balance June 30, 2013
Land	$ 1,089	$ -	$ -	$ 1,089
Buildings	5,036	-	-	5,036
Equipment	4,704	273	(9)	4,968
Less accumulated depreciation	(6,866)	(409)	9	(7,266)
Net Capital Assets	$ 3,963	$ (136)	$ -	$ 3,827

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 G--Lines of Credit

The Corporation's lines of credit at June 30, 2013 and activity during the year follows:

Business-Type Activities	Balance July 1, 2012	Borrowings	Repayments and Dispositions	Balance June 30, 2013
Loan Warehousing Line of Credit 1	31,881	87,450	85,301	34,030
Loan Warehousing Line of Credit 2	$ -	$ 31,500	$ 25,500	$ 6,000
	$ 31,881	$ 118,950	$ 110,801	$ 40,030

Loan Warehouse 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 60 basis points and matures June 30, 2014. The rate as of June 30, 2012 was .85%. Up to $25,000 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 was obtained during the year ended June 30, 2013 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, also bears interest at LIBOR plus 60 basis points and, with its recent renewal, matures August 15, 2014.

(Continued)

(Dollars in thousands)

Note H--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2013 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2012	Issued	Repaid/ Retired	Balance June 30, 2013	Amount Due Within One Year
Housing Revenue Bonds:						
2002 Series A:						
2014-2031, 4.65% to 5.50%	$ 55,000	$ 18,745	$ -	$ 18,745	$ -	$ -
2002 Series C:						
2014-2028, 4.30% to 5.375%	21,220	14,685	-	14,685	-	-
2002 Series D:						
2014-2033, 4.25% to 5.375%	50,000	35,470	-	35,470	-	-
2002 Series E:						
2014-2033, 3.70% to 5.05%	40,000	31,340	-	31,340	-	-
2002 Series F:						
2014-2034, 4.10% to 5.25%	30,000	20,550	-	20,550	-	-
2003 Series A:						
2014-2034, 3.30% to 4.75%	35,000	23,345	-	23,345	-	-
2003 Series B:						
2014-2034, 3.35% to 4.80%	55,000	31,615	-	31,615	-	-
2003 Series C:						
2016-2025, 3.80% to 4.55%	16,720	14,680	-	14,680	-	-
2003 Series D:						
2014-2034, 4.25% to 5.10%	45,000	24,285	-	3,370	20,915	855
2003 Series F:						
2014-2033, 3.415% to 4.95%	155,140	60,920	-	7,040	53,880	6,160
2003 Series G:						
2014-2034, 4.00% to 4.95%	45,000	25,850	-	4,820	21,030	830
2004 Series A:						
2014-2018, 4.15% to 4.55%	17,175	10,275	-	2,065	8,210	1,665
2004 Series B:						
2018-2025, 5.00%	22,825	6,115	-	2,645	3,470	-
2004 Series D:						
2014-2035, 4.30% to 5.05%	55,000	30,500	-	6,235	24,265	1,020
2004 Series F:						
2014-2035, 4.00% to 4.90%	45,000	25,780	-	3,840	21,940	1,015
2004 Series G:						
2014-2017, 3.75% to 4.05%	10,225	4,340	-	935	3,405	1,005
2004 Series H:						
2017-2036, 4.00% to 4.90%	29,775	17,220	-	4,695	12,525	-
2005 Series A:						
2014-2032, 4.00% to 4.75%	18,670	13,310	-	2,275	11,035	170
2005 Series B:						
2014-2033, variable	16,330	7,785	-	1,505	6,280	105
2005 Series C:						
2014-2031, 3.70% to 4.50%	22,215	16,140	-	1,190	14,950	1,190
2005 Series D:						
2019-2036, 4.60% to 5.00%	37,785	18,155	-	4,490	13,665	-

(Continued)

(Dollars in thousands)

Note H--Revenue Bonds and Other Noncurrent Liabilities--Continued

	Original Face Amount	Balance July 1, 2012	Issued	Repaid/ Retired	Balance June 30, 2013	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2005 Series E:						
2015-2034, 4.10% to 5.00%	80,000	48,140	-	7,630	40,510	1,310
2005 Series F:						
2014-2016, 4.69% to 4.78%	20,000	7,420	-	2,345	5,075	2,365
2005 Series G:						
2016-2031, 4.20% to 5.00%	37,390	21,625	-	5,150	16,475	-
2005 Series H:						
2017-2037, variable	21,925	21,925	-	-	21,925	-
2005 Series I:						
2014-2017, 5.01% to 5.04%	22,940	9,440	-	2,470	6,970	2,330
2005 Series J:						
2014-2018, 3.70% to 4.10%	8,775	5,340	-	4,630	710	80
2005 Series K:						
2017-2030, 5.00%	8,040	1,240	-	730	510	-
2005 Series L:						
2017-2037, variable	20,000	20,000	-	-	20,000	-
2006 Series A:						
2014-2035, 4.00% to 4.85%	8,775	7,895	-	2,245	5,650	80
2006 Series B:						
2016-2037, 4.80% to 5.25%	15,420	5,470	-	935	4,535	-
2006 Series C:						
2024-2037, variable	15,425	15,425	-	-	15,425	-
2006 Series D:						
2014-2016, 5.17% to 5.24%	20,000	7,110	-	2,445	4,665	2,310
2006 Series E:						
2014-2037, 4.10% to 5.00%	27,140	21,855	-	5,165	16,690	255
2006 Series F:						
2017-2030, variable	20,540	20,540	-	-	20,540	-
2006 Series G:						
2014-2035, 5.12% to 5.52%	37,220	2,810	-	2,810	-	-
2006 Series H:						
2017-2037, 4.65% to 5.00%	41,495	30,660	-	4,155	26,505	-
2006 Series I:						
2019-2032, variable	23,750	23,750	-	-	23,750	-
2006 Series J:						
2014-2035, 5.52% to 5.92%	29,390	900	-	900	-	-
2006 Series K:						
2014-2023, 4.05% to 4.55%	9,585	7,720	-	6,685	1,035	80
2006 Series L:						
2014-2037, 4.5% to 5.50%	19,085	4,865	-	2,105	2,760	455

(Continued)

(Dollars in thousands)

Note H--Revenue Bonds and Other Noncurrent Liabilities--Continued

	Original Face Amount	Balance July 1, 2012	Issued	Repaid/ Retired	Balance June 30, 2013	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2006 Series M:						
2017-2033, variable	21,000	21,000	-	-	21,000	-
2006 Series O:						
2017-2036, variable	29,035	18,160	-	1,500	16,660	-
2006 Series P:						
2014-2035, 3.80% to 4.60%	8,210	8,210	-	-	8,210	60
2006 Series Q:						
2014-2032, 4.20% to 4.85%	41,790	31,705	-	8,450	23,255	750
2006 Series R:						
2017-2038, 5.816%	21,700	4,655	-	1,780	2,875	-
2006 Series S:						
2014-2037, 5.88%	15,000	4,735	-	1,450	3,285	70
2006 Series T:						
2017-2038, variable	23,300	13,060	-	1,750	11,310	-
2006 Series U:						
2014-2038, 4.125% to 4.90%	45,000	34,700	-	7,275	27,425	755
2006 Series W:						
2017-2038, variable	38,380	17,495	-	1,650	15,845	-
2007 Series A:						
2014-2038, 4.00% to 4.65%	39,545	35,865	-	4,620	31,245	635
2007 Series B:						
2019-2038, 5.58% to 5.58%	38,000	12,545	-	5,480	7,065	-
2007 Series C:						
2014-2038, 4.20% to 4.80%	50,000	43,200	-	3,965	39,235	615
2007 Series D:						
2018-2038, 5.745%	30,000	10,640	-	2,835	7,805	-
2007 Series E:						
2014-2038, 4.15% to 4.85%	45,000	40,785	-	3,645	37,140	580
2007 Series F:						
2018-2038, 5.53%	30,000	7,100	-	3,555	3,545	-
2007 Series G:						
2014-2035, 3.90% to 4.75%	6,285	6,285	-	-	6,285	10
2007 Series H:						
2014-2038, 4.25% to 5.00%	34,965	24,765	-	7,630	17,135	620
2007 Series I:						
2018-2038, 5.77%	16,620	4,700	-	1,475	3,225	-
2007 Series J:						
2018-2038, variable	17,130	14,135	-	-	14,135	-
2007 Series K:						
2014-2035, 4.00% to 5.00%	7,405	7,405	-	-	7,405	20

(Continued)

(Dollars in thousands)

Note H--Revenue Bonds and Other Noncurrent Liabilities--Continued

	Original Face Amount	Balance July 1, 2012	Issued	Repaid/ Retired	Balance June 30, 2013	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2007 Series L:						
2014-2038, 4.30% to 5.50%	25,485	20,145	-	4,215	15,930	195
2007 Series M:						
2019-2037, 6.06%	27,000	9,180	-	2,935	6,245	-
2007 Series N:						
2014-2033, 4.00% to 5.00%	40,000	27,175	-	6,775	20,400	490
2007 Series O:						
2014-2038, variable	10,000	7,525	-	130	7,395	140
2008 Series A:						
2014-2038, 3.60% to 5.30%	39,270	28,860	-	4,435	24,425	520
2008 Series C:						
2014-2034, 3.50% to 5.00%	14,230	14,230	-	115	14,115	230
2008 Series D:						
2014-2024, 4.65% to 5.35%	35,770	23,585	-	13,345	10,240	505
2008 Series E:						
2014-2034, 3.30% to 5.375%	60,000	50,370	-	18,130	32,240	1,215
2008 Series F:						
2020-2038, 5.625%	10,000	4,605	-	2,165	2,440	-
2009 Series A:						
2014-2040, 2.25% to 5.75%	40,000	31,620	-	31,620	-	-
2009 Series B:						
2014-2040, 2.30% to 5.15%	60,000	52,395	-	3,825	48,570	910
2009 Series C, Sub series C-1:						
2027-2042, 3.81%	60,000	56,740	-	56,740	-	-
2009 Series C, Sub series C-2:						
2028-2042, 3.81%	60,000	58,220	-	58,220	-	-
2009 Series C, Sub series C-3:						
2028-2042, 3.55%	30,000	29,760	-	2,370	27,390	-
2009 Series C, Sub series C-4:						
2028-2042, 2.52%	30,000	30,000	-	230	29,770	-
2010 Series A:						
2014-2027, 1.30% to 5.00%	40,000	35,065	-	4,955	30,110	1,830
2010 Series B:						
2014-2027, 1.45% to 5.00%	40,000	36,000	-	4,300	31,700	1,900
2010 Series C:						
2028-2034, 4.375% to 4.625%	10,000	7,970	-	1,265	6,705	-
2010 Series D:						
2015-2027, 3.05% to 5.125%	46,000	39,525	-	3,225	36,300	-
2010 Series E:						
2021-2036, 3.625% to 4.75%	20,000	20,000	-	-	20,000	-

(Continued)

(Dollars in thousands)

Note H--Revenue Bonds and Other Noncurrent Liabilities--Continued

	Original Face Amount	**Balance July 1, 2012**	**Issued**	**Repaid/ Retired**	**Balance June 30, 2013**	**Amount Due Within One Year**
Housing Revenue Bonds-Continued						
2011 Series A:						
2014-2028, 1.00% to 5.00%	20,000	19,330	-	2,505	16,825	910
2011 Series B:						
2014-2028, 0.50% to 4.25%	20,000	20,000	-	840	19,160	1,120
2012 Series A:						
2014-2034, 0.50% to 4.268%	187,755	187,755	-	18,005	169,750	7,350
2013 Series A:						
2041, 3.00%	52,940		52,940	465	52,475	-
2013 Series B:						
2041, 3.00%	54,920		54,920	220	54,700	-
Total Housing Revenue Bonds	$ 2,901,710	1,906,435	$ 107,860	$ 584,025	1,430,270	$ 44,710
Unamortized premium		4,984			3,677	
Net Revenue Bonds		$ 1,911,419			$ 1,433,947	

As indicated above, bond issues totaling $194,300 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 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 H--Revenue Bonds and Other Noncurrent Liabilities--Continued

As of June 30, 2013, 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 I 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,				
2014	$ 44,710	$ 53,686	$ 5,518	$ 103,914
2015	51,900	50,435	5,040	107,375
2016	53,945	48,586	4,637	107,168
2017	56,390	46,673	4,376	107,439
2018	57,730	44,722	4,232	106,684
Five years ending June 30,				
2019-2023	312,250	189,388	18,889	520,527
2024-2028	262,500	131,794	13,306	407,600
2029-2033	284,410	83,071	6,716	374,197
2034-2038	178,215	35,615	1,468	215,298
2039-2043	128,220	12,496	-	140,716
	$ 1,430,270	$ 696,466	$ 64,182	$ 2,190,918

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, 2012	Additions	Reductions	Balance June 30, 2013
Other noncurrent liabilities	$ 14,261	$ 438	$ 413	$ 14,286

(Continued)

(Dollars in thousands)

Note I--Interest Rate Swap Agreements

Summary of Derivative Instruments: The Corporation has entered into ten multiple pay-fixed, receive-variable interest rate swap agreements ("swaps") in order to hedge the interest rate exposure associated with variable rate debt and to reduce borrowing costs. The ten swaps are cash flow hedges issued in conjunction with the business-type activities of the mortgage revenue bond program. None of the derivative instruments are considered investments.

As of June 30, 2013, nine of the ten swaps were determined to be effective hedges, while the 2006 W swap has been determined to be ineffective for the purposes of GASB 53. The effectively hedged swaps, which have a notional amount of $142,655, increased in fair value between June 30, 2012 and June 30, 2013 by $4,605. This increase has been recorded as a reduction in Deferred Outflows of Resources on the Company wide statement of net position. As of June 30, 2013, the aggregate balance of Deferred Outflows of resources attributable to effective swap hedges is $10,421. The ineffective swap, which has a notional amount of $10,150, also increased in fair value from June 30, 2012 and June 30, 2013 by $477. This increase is recorded as investment revenue for the year ended June 30, 2013.

The aggregate fair value of all swaps, totaling $10,942, 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	$ 7,005	1/1/2032	3.188%	62% 3M LIBOR + 28 bp	1/1/2016
2005 Series H	10/11/2005	$ 21,925	$ 21,925	7/1/2036	3.725%	62% 1M LIBOR + 28 bp	1/1/2015
2005 Series L	12/1/2005	$ 20,000	$ 20,000	7/1/2036	3.627%	62% 1M LIBOR + 28 bp	1/1/2016
2006 Series C	1/26/2006	$ 15,425	$ 15,425	7/1/2036	3.914%	62% 1M LIBOR + 28 bp	1/1/2016
2006 Series F	4/11/2006	$ 20,540	$ 20,540	7/1/2029	3.764%	62% 1M LIBOR + 28 bp	7/1/2016
2006 Series I	6/8/2006	$ 23,750	$ 23,750	1/1/2032	4.127%	62% 1M LIBOR + 35 bp	7/1/2016
2006 Series M	8/9/2006	$ 21,000	$ 21,000	1/1/2033	4.178%	62% 1M LIBOR + 35 bp	7/1/2016
2006 Series O	8/9/2006	$ 29,035	$ 7,350	1/1/2017	5.700%	100% 1M LIBOR	N/A
2006 Series T	9/27/2006	$ 23,300	$ 5,660	1/1/2016	5.337%	100% 1M LIBOR	N/A
2006 Series W	11/29/2006	$ 38,380	$ 10,150	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 I--Interest Rate Swap Agreements—Continued

Risks: *Credit risk* is the risk that a counterparty will not fulfill its obligation. As of June 30, 2013, the swaps had a negative fair value of $10,942. To mitigate the potential for credit risk, the Corporation has contracted with A2/A/A and Aa3/A+/A+ rated counterparties.

- Merrill Lynch Capital Services, Inc. (Baa2/A-/A) serves as the counterparty for nine of KHC's derivative instruments and accounts for $142,655 of the total notional amount outstanding for all swaps. Furthermore, the derivative instruments are guaranteed by Merrill Lynch Derivative Products AG, which is rated Aa3/A+/NR.

- UBS AG (A2/A/A) serves as the counterparty for the remaining swap and accounts for $10,150 of the total notional amount outstanding.

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

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

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

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

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

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

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 J--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, 2013, conduit debt obligations have been issued for 21 multi-family projects totaling approximately $165,263. 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 K--Retirement Plan

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

Funding Policy: Plan participants are required to contribute 5% or 6% of their annual covered salaries, dependent upon their beginning dates of participation. The Corporation is required to contribute at a rate determined by the state legislature, which is based on an actuarially determined rate. This was 23.61% and 19.82% for the years ended June 30, 2013 and 2012, respectively. For fiscal year ending June 30, 2014, the rate increased to 26.79%. The contribution requirements of Plan participants and the Corporation may be amended by the Kentucky Retirement System Board of Trustees and the state legislature. The Corporation's required contributions to KERS for the years ended June 30, 2013, 2012 and 2011 were $3,274, $2,872 and $2,522, respectively, and were fully paid to the Plan.

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

(Continued)

Note L--Post-Employment Health Care Benefits

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

Note M--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, 2013. Settlements have not exceeded insurance coverage.

Note N--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 27, 2013, the date the financial statements were issued.

In July 2013, the Corporation successfully completed the economic refunding in their entirety the Series 2003 D, F and G and Series 2004 A and B bonds, with the issuance of Series 2013 C, D, E, F and G bonds in the amount of $99,970.

In September 2013, the Corporation utilized $25,000 of excess Debt Service Reserve funds to redeem outstanding bonds totaling $12,500 and to provide additional funding of $12,500 to the Housing Trust Fund. In addition, in September 2013 the Corporation reserved $30,000 of the remaining excess Debt Service Reserve funds for the purpose of providing self-liquidity for certain of the Corporation’s variable rate bonds, replacing liquidity by outside providers.

(Continued)

Note O--Contingencies

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

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

Supplemental Combining Information
Housing Revenue Bond Funds

Kentucky Housing Corporation
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Housing Revenue Bond Funds
Year Ended June 30, 2013
(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	$ 4,058	$ -	$ 14	$ -	$ -	$ -	$ 4,072
Investment securities	23,588	23,082	68,865	16,125	1,631	29,666	162,957
Mortgage-backed securities	16,876	-	-	1,043	-	-	17,919
Housing mortgage loans	25,253	-	-	-	1,856	-	27,109
Interfund accounts	(24,512)	17,666	6,432	-	239	-	(175)
Total Current Assets	45,263	40,748	75,311	17,168	3,726	29,666	211,882
Noncurrent Assets							
Investment securities	-	-	-	134,057	-	-	134,057
Mortgage-backed securities	545,463	-	-	33,704	-	-	579,167
Housing mortgage loans	710,177	-	-	-	38,286	-	748,463
Real estate owned and related receivables	4,711	-	-	-	-	-	4,711
Other noncurrent assets	-	-	-	-	-	-	-
Total Noncurrent Assets	1,260,351	-	-	167,761	38,286	-	1,466,398
Total Assets	1,305,614	40,748	75,311	184,929	42,012	29,666	1,678,280
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated decrease in fair value of derivatives - interest rate swaps	-	-	10,421	-	-	-	10,421
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	591	-	-	-	-	-	591
Accrued interest payable	-	-	27,682	-	-	-	27,682
Revenue bonds - current portion	44,710	-	-	-	-	-	44,710
Total Current Liabilities	45,301	-	27,682	-	-	-	72,983
Noncurrent Liabilities							
Revenue bonds	1,389,237	-	-	-	-	-	1,389,237
Other noncurrent liabilities	1,410	-	-	-	-	-	1,410
Derivative instruments - interest rate swaps	-	-	10,942	-	-	-	10,942
Total Noncurrent Liabilities	1,390,647	-	10,942	-	-	-	1,401,589
Total Liabilities	1,435,948	-	38,624	-	-	-	1,474,572
FUND NET POSITION							
Restricted by revenue bond indenture	$ (130,334)	$ 40,748	$ 47,108	$ 184,929	$ 42,012	$ 29,666	$ 214,129

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, 2013
(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	$ 43,759	$ -	$ -	$ -	$ 596	$ -	$ -	$ 44,355
Mortgage-backed securities	29,174	-	-	1,912	-	-	-	31,086
Marketable securities	1	2	3	1,630	1	2	2	1,641
Net (decrease) in fair value of marketable securities	(24,087)	-	-	(6,682)	-	-	-	(30,769)
Net increase in fair market value of swaps	-	-	477	-	-	-	-	477
Gain on sale of mortgage-backed and marketable securities	418	-	-	-	-	-	-	418
Other income	1,038	-	-	-	-	-	-	1,038
Total Operating Revenues	50,303	2	480	(3,140)	597	2	2	48,246
Operating Expenses								
Interest on revenue bonds	-	-	64,908	-	-	-	-	64,908
Provision for losses on loans	1,042	-	-	-	-	-	-	1,042
General and administrative	191	-	-	-	-	-	-	191
Mortgage loan servicers' fees	2,815	-	-	-	129	-	-	2,944
Loan origination costs		-	-	-	216	-	-	216
Debt issuance costs	1,343	-	-	-	-	-	-	1,343
Total Operating Expenses	5,391	- -	64,908	-	345	-	-	70,644
Operating Income (Loss)	44,912	2	(64,428)	(3,140)	252	2	2	(22,398)
Interfund Transfers	125,311	(5,562)	57,382	(15,000)	5,243	(2)	(173,811)	(6,439)
Change in Fund Net Position	170,223	(5,560)	(7,046)	(18,140)	5,495	-	(173,809)	(28,837)
Fund Net Position, Beginning of Year	(300,557)	46,308	54,154	203,069	36,517	-	203,475	242,966
Fund Net Position, End of Year	$ (130,334)	$ 40,748	$ 47,108	$ 184,929	$ 42,012	$ -	$ 29,666	$ 214,129

See Independent Auditor's Report.

Kentucky Housing Corporation
Combining Statement of Cash Flows – Housing Revenue Bond Funds
Year Ended June 30, 2013
(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	$ 43,759	$ -	$ -	$ -	$ 596	$ -	$ -	$ 44,355
Operating expenses	(2,815)	-	-	-	(345)	-	-	(3,160)
Fundings of housing mortgage loans	(1,689)	-	-	-	(11,205)	-	-	(12,894)
Repayments on housing mortgage loans	152,951	-	-	-	3,978	-	-	156,929
Conversion of mortgage loans to mortgage-backed securities	9,301	-	-	-		-	-	9,301
Other, net	25,662	(17,735)	(5,330)	-	(239)	-	-	2,358
Net Cash Provided By (Used In) Operating Activities	227,169	(17,735)	(5,330)	-	(7,215)	-	-	196,889
Cash Flows From Noncapital Financing Activities								
Proceeds from issuance of revenue bonds	107,860	-	-	-	-	-	-	107,860
Payments for debt issuance costs	(1,194)	-	-	-	-	-	-	(1,194)
Principal payments on revenue bonds	(107,860)	-	(476,165)	-	-	-	-	(584,025)
Interest payments on revenue bonds	-	-	(75,460)	-	-	-	-	(75,460)
Interfund transfers - loan collections and investment income	(346,527)	253,585	88,763	-	(2,256)	(2)	(2)	(6,439)
Interfund transfers - purchase of mortgage loans	1,588	(1,588)	-	-	-	-	-	-
Interfund transfers - retirement of debt	(6,185)	(257,559)	445,053	(15,000)	7,500	-	(173,809)	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(352,318)	(5,562)	(17,809)	(15,000)	5,244	(2)	(173,811)	(559,258)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(171,884)	(266,510)	(147,547)	(234,024)	(9,714)	-	(276,572)	(1,106,251)
Conversion of mortgage loans to mortgage-backed securities	(9,301)	-	-	-	-	-	-	(9,301)
Sales of investments and mortgage-backed securities	292,368	277,810	166,102	245,262	11,449	-	450,381	1,443,372
Gain on the sales of investments and mortgage-backed securities	418	-	-	-	-	-	-	418
Interest received on investments and mortgage-backed securities	29,709	2	3	3,762	-	2	2	33,480
Net Cash Provided By (Used In) Investing Activities	141,310	11,302	18,558	15,000	1,735	2	173,811	361,718
Net Increase (Decrease) in Cash and Cash Equivalents	16,161	(11,995)	(4,581)	-	(236)	-	-	(651)
Cash and Cash Equivalents, Beginning of Year	(12,103)	11,995	4,595	-	236	-	-	4,723
Cash and Cash Equivalents, End of Year	$ 4,058	$ -	$ 14	$ -	$ -	$ -	$ -	$ 4,072

See Independent Auditor’s Report.

Kentucky Housing Corporation
Combining Statement of Cash Flows – Housing Revenue Bond Funds--Continued
Year Ended June 30, 2013
(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)	$ 44,912	$ 2	$ (64,428)	$ (3,140)	$ 252	$ 2	$ 2	$ (22,398)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Provision for losses on loans	1,279	-	-	-	-	-	-	1,279
Debt issuance costs	1,343	-	-	-	-	-	-	1,343
Interest expense on revenue bonds	-	-	64,908	-	-	-	-	64,908
Interest income on mortgage-backed securities	(29,174)	-	-	(1,912)	-	-	-	(31,086)
Interest income on marketable securities	(1)	(2)	(3)	(1,630)	(1)	(2)	(2)	(1,641)
Net increase (decrease) in fair value of marketable securities	24,087	-	-	6,682	-	-	-	30,769
Net increase in fair value of swaps	-	-	(477)	-	-	-	-	(477)
Gain on sale of mortgage-backed and marketable securities	(418)	-	-	-	-	-	-	(418)
Other income	(1,038)	-	-	-	-	-	-	(1,038)
Changes in operating assets and liabilities:								
Fundings of housing mortgage loans	(1,689)	-	-	-	(11,205)	-	-	(12,894)
Repayments on housing mortgage loans	152,951	-	-	-	3,978	-	-	156,929
Conversion of mortgage loans to mortgage-backed securities	9,301	-	-	-	-	-	-	9,301
Other, net	25,616	(17,735)	(5,330)	-	(239)	-	-	2,312
Net Cash Provided By (Used In) Operating Activities	$ 227,169	$ (17,735)	$ (5,330)	$ -	$ (7,215)	$ -	$ -	$ 196,889

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*

Crowe Horwath LLP
Independent Member Crowe Horwath International

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, 2013 and the related notes to the financial statements, which collectively compromise the Corporation's basic financial statements and have issued our report thereon dated September 27, 2013.

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 27, 2013

Independent Auditor’s Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; And Report On The Schedule Of Expenditures Of Federal Awards Required By OMB Circular A-133

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Kentucky Housing Corporation's ("the Corporation") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2013. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 27, 2013

Kentucky Housing Corporation
Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2013

Federal Grantor / Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
DEPARTMENT OF ENERGY			
Direct Programs:			
Weatherization Assistance for Low-Income Persons Training (ARRA)		81.042	$ 242,678
Pass-Through Programs:			
CHFS – Department for Community Based Services:			
Weatherization Assistance for Low-Income Persons	DE-FG26-07NT43133	81.042	5,417,992
Weatherization Assistance for Low-Income Persons (ARRA)	DE-EE0000152	81.042	3,601,559
Total			9,262,229
Energy and Environment Cabinet of Kentucky:			
State Energy Program (ARRA)	PON2 127 1000002828 3	81.041	224,595
Total Department of Energy			9,486,824
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Section 8 Housing Assistance Payments Program		14.195	119,848,983
Section 8 Housing Assistance Payments Program (Noncash)		14.195	3,045,397
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation		14.856	76,275
Section 8 Project-Based Cluster Subtotal			122,970,655
Mortgage Insurance – Homes (Note B)		14.117	120,470,243
Supportive Housing for Persons with Disabilities		14.181	297,736
Emergency Solutions Grants Program		14.231	1,859,816
Supportive Housing Program		14.235	6,621,217
Shelter Plus Care		14.238	480,359
HOME Investment Partnerships Program		14.239	14,948,859
Housing Opportunities for Persons with AIDS		14.241	570,759
Homeless Prevention and Rapid Re-Housing Program (ARRA)		14.257	106,277
Section 8 Housing Choice Vouchers		14.871	26,744,519
Total Department of Housing and Urban Development			295,070,440
DEPARTMENT OF THE TREASURY/NEIGHBOR WORKS AMERICA			
Direct Programs:			
National Foreclosure Mitigation Counseling Program		21.000	2,468
Total Department of the Treasury/Neighbor Works America			2,468
APPALACHIAN REGIONAL COMMISSION			
Direct Programs:			
Appalachian Area Development		23.002	443,613
Total Appalachian Regional Commission			443,613
DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Community Facilities Loans and Grants	(Note B)	10.766	21,534,836
Total Department of Agriculture			21,534,836

See accompanying notes to the schedule of expenditures of federal awards.

Kentucky Housing Corporation
Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2013

Federal Grantor / Program Title	Pass-Through Number	Federal CFDA	Federal Expenditures
DEPARTMENT OF VETERANS AFFAIRS			
Direct Programs –			
Veterans Housing – Guaranteed and Insured Loans (Note B)		64.114	2,871,312
Total Department of Veterans Affairs			2,871,312
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through Programs:			
Low-Income Home Energy Assistance		93.568	981,015
Total Department of Health and Human Services			981,015
Total Federal Expenditures			$ 330,390,544

See accompanying notes to the schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the financial statements.

NOTE 2 – LOANS OUTSTANDING

The Department of Housing and Urban Development's Mortgage Insurance (CFDA 14.117), Department of Agriculture's Community Facilities Loans and Grants (CFDA10.766), and Department of Veterans Affairs' Veterans Housing – Guaranteed and Insured Loans (CFDA 64.114) represent those loans originated during the year ended June 30, 2013 by the Corporation. The total outstanding loan balances for each program at June 30, 2013 is as follows:

CFDA 14.117	$ 558,869,692
CFDA 10.766	$ 170,983,204
CFDA 64.114	$ 35,071,803

NOTE 3 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the Corporation provided federal awards to subrecipients as follows:

Federal Grant Name	CFDA #	Amount Provided to Subrecipients
Emergency Solutions Grants Program	14.231	$ 1,763,502
Supportive Housing Program	14.235	6,229,572
Shelter Plus Care	14.238	480,359
HOME Investment Partnerships Program	14.239	9,538,449
Housing Opportunities for Persons with AIDS	14.241	546,487
Homelessness Prevention and Rapid Re-Housing Program (ARRA)	14.257	53,595
Appalachian Area Development	23.002	443,613
Weatherization Assistance for Low-Income Persons	81.042	5,228,125
Weatherization Assistance for Low-Income Persons (ARRA)	81.042	3,398,499
Low-Income Home Energy Assistance	93.568	981,015
		$ 28,663,216

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ______ Yes __x___ No

Significant deficiencies identified not considered to be material weaknesses? ______ Yes __x___ None Reported

Noncompliance material to financial statements noted? _______ Yes __x___ No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ Yes __x___ No

Significant deficiencies identified not considered to be material weaknesses? ______ Yes __x___ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? _____ Yes __x___ No – None Reported

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.195	Section 8 Project Based Cluster
14.235	Supportive Housing Program
81.042 ARRA	Weatherization Assistance for Low-Income Persons

Dollar threshold used to distinguish between Type A and Type B programs: $3,000,000

Auditee qualified as low-risk auditee? __x___ Yes _______ No

Section II - Findings Related to the Financial Statements that Are Required To Be Reported in Accordance With Government Auditing Standards

There were no findings for the year ended June 30, 2013.

Section III – Findings and Questioned Costs for Federal Awards Including Audit Findings as Defined In OMB Circular A-133 Section 510(A).

There were no findings for the year ended June 30, 2013.

Section IV – Schedule of Prior Year Audit Findings and Questioned Costs

There were no outstanding findings of questioned costs remaining from prior years.