Kentucky Housing Corporation

Financial Statements
June 30, 2012

TABLE OF C O N T E N T S

Crowe Horwath LLP
Independent Member Crowe Horwath International

Report of Independent Auditors

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Kentucky Housing Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the Corporation's financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Corporation as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note B to the financial statements, on June 30, 2012, the Corporation retroactively adopted GASB Statement 62, Statement No. 63, Statement No. 65, and Statement No. 66.

In accordance with *Government Auditing Standards*, we have also issued a report dated *October 4, 2012* on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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 pages 45 through 48 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The combining financial statements have 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 are fairly stated in all material respects in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 4, *2012*

Management's discussion and analysis of Kentucky Housing Corporation's financial performance provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Corporation-Wide net position increased by 4.3% or $13.1 million as a result of fiscal year 2012 operations.

- During fiscal year 2012, the Corporation sold approximately $132 million of mortgage-backed securities for a premium price of $146 million. The entire $146 million was used to retire debt.

- Depressed short-term investment interest rates, the inability to competitively access the tax-exempt bond market, and continued competitiveness in the mortgage market created significant challenges for the Corporation to maintain profitability.

- Low mortgage rates create other challenges for the Corporation as a significant number of portfolio loan prepayments were received in fiscal year 2012. These prepayments were used to retire bonds, but the Corporation loses the interest margin between the loan rate and the bond rate.

- As a result of the Corporation's limited access to the tax-exempt bond market, the Corporation began funding mortgage loans through the Secondary Market Mortgage Purchase program. During fiscal year 2012, the Corporation sold approximately $45.5 million of mortgage-backed securities through this program for a gain of $2.7 million.

- The Corporation successfully undertook an economic refunding through the issuance of $187.9 million in housing revenue bonds (2012 Series A), which will result in substantial savings of interest expense (net present value of $13.7 million) over the life of the bonds. The bonds refunded by this transaction were paid off in July 2012.

- The levels of foreclosed and delinquent loans in the Corporation's single-family mortgage portfolio, which continue to be high but improving, adversely affected interest income on loans.

- The Corporation experienced loan losses totaling $1.4 million on its single-family loan portfolio in fiscal 2012. As a result, the Corporation increased its overall provision for losses.

- The Corporation adopted new GASB accounting standards during the year that allow for loan activities to be recognized in the year the transaction occurred rather over the life of the loan. At June 30, 2011, the Corporation had $14.4 million in deferred debt issuance cost and $18.8 million in deferred loan cost assets, and $1.0 million in loan origination fee deferred revenue. This change in accounting principle resulted in an overall decrease in beginning net position at June 30, 2011, of $32.2 million. The MD&A's financial information for 2011 has been restated to show the impact on the 2011 activities of $6.7 million. The remainder of the adjustment was recorded to periods prior to July 1, 2011 of $25.5 million.

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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.

- 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.

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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.

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 assets increased by $13.1 for the year ended June 30, 2012. Table 1 shows condensed financial information from the Statement of Net Position:

Table 1
Statement of Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total Corporation	
	2012	**2011**	**2012**	**2011 (restated)**	**2012**	**2011 (restated)**
Current assets	$18.1	$ 14.9	$ 582.4	$ 369.6	$ 600.5	$ 384.5
Non-current assets	-	-	1,781.6	2,144.1	1,781.6	2,144.1
Total Assets	18.1	14.9	2,364.0	2,513.7	2,382.1	2,528.6
Total Deferred Outflows of Resources	-	-	15.0	12.4	15.0	12.4
Current liabilities	(7.2)	(2.5)	(358.3)	(192.6)	(365.5)	(195.1)
Non-current liabilities	-	-	(1,696.7)	(2,026.2)	(1,696.7)	(2,026.2)
Total Liabilities	(7.2)	(2.5)	(2,055.0)	(2,218.8)	(2,062.2)	(2,221.3)
Total Deferred Inflows of Resources	-	-	16.0	13.9	16.0	13.9
Net Position:						
Invested in capital assets	-	-	4.0	4.3	4.0	4.3
Restricted	10.9	12.4	250.3	235.2	261.2	247.6
Unrestricted	-	-	53.7	53.9	53.7	53.9
Net Position	$ 10.9	$ 12.4	$ 308.0	$ 293.4	$ 318.9	$ 305.8

(Continued)

The net position of the governmental activities decreased from $12.4 million to $10.9 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 decrease in net position indicates that revenues received from governmental activities were less than program grants, operating expenditures and transfers.

The net position of the Corporation's business-type activities increased from $293.4 million to $308.0 million as a result of an $18.1 million increase in the gains on sales of mortgage-backed and marketable securities and loans held for sale. This increase in gains on sales was offset by a $3.3 million decline in net interest income, a $2.4 million decline in the increase in the fair market value of marketable securities, a $.1 million decline in the increase in the fair market value of swaps, a $1.3 million decline in the provision for loan losses, and a $6.3 million increase in other operating income and expenses. Comparisons in the changes in net position between fiscal years 2011 and 2012 provide additional insight on the Corporation's operating performance. Table 2 shows condensed Statement of Activities financial information.

Table 2
Statement of Activities
(in millions)

	Governmental Activities		Business-Type Activities		Total Corporation	
	2012	2011	2012	2011 (restated)	2012	2011 (restated)
Revenues						
Operating revenues	$ 14.0	$ 13.2	$ 129.3	$ 127.6	$143.3	$ 140.8
Operating grants	243.1	281.0	-	-	243.1	281.0
Total Revenues	257.1	294.2	129.3	127.6	386.4	421.8
Program Expenses						
Rental subsidy administration	149.7	146.5	-	-	149.7	146.5
Weatherization program	31.1	31.7	-	-	31.1	31.7
HOME program	20.7	40.5	-	-	20.7	40.5
Unemployment Bridge program	19.1	1.7	-	-	19.1	1.7
Treasury Housing Credit program	12.5	43.6	-	-	12.5	43.6
Other federal and state programs	22.9	24.0	-	-	22.9	24.0
Administrative	-	-	12.5	11.3	12.5	11.3
Bond financed loan programs	-	-	93.4	103.2	93.4	103.2
Loan servicing	-	-	8.8	6.6	8.8	6.6
Other loan and housing Credit programs	-	-	2.6	2.5	2.6	2.5
Total Program Expenses	256.0	288.0	117.3	123.6	373.3	411.6
Excess before transfers	1.1	6.2	12.0	4.0	13.1	10.2
Transfers	(2.6)	(3.3)	2.6	3.3	-	-
Increase (Decrease) in Net Position	$ (1.5)	$ 2.9	$ 14.6	$ 7.3	$ 13.1	$ 10.2

(Continued)

Total revenues for governmental activities were $257.1 million during fiscal year 2012, a $37.1 million decrease from the $294.2 million in revenues in fiscal year 2011. The decrease was due to a $37.9 million decrease in operating grants and a $.8 million increase in charges for services. Operating grants include federal funding for Section 8 ($144.6 million), Treasury Housing Credit ($12.5 million), HOME ($19.6 million), Unemployment Bridge ($16.8 million) and Weatherization ($27.3 million), which represent 92% of total operating grant revenues.

The Corporation receives fees or charges for services for federal program administration. These revenues increased from $13.2 million in 2011 to $14.0 million during fiscal year 2012. 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 2012, $14.0 million in fee revenue was received and $11.4 million in operating expenses were incurred thereby enabling a $2.6 million transfer, or a $.7 million decrease from the $3.3 million similarly derived and transferred in 2011.

Program expenses for governmental activities decreased during 2012 by $32.0 million. Program expenses for governmental activities during 2012 were $256.0 million, comprised of grants of $244.6 million and operating expenses of $11.4 million, as discussed above. In fiscal 2011, total program expenses were $288.0 million with grants of $278.2 million and operating expenses of $9.9 million.

Total revenues for business-type activities were $129.3 million during fiscal year 2012, a $2.2 million increase from the $127.6 million of revenues in fiscal year 2011. For fiscal 2012, there were $18.1 million in gains on the sale of mortgage-backed and marketable securities and loans held for sale; such gains included $15.0 million in gains on the sale of mortgage-backed and marketable securities and $3.1 million in gains on the sale of loans funded and held for sale. Interest earnings from loans, mortgage-backed securities and other investments decreased $14.4 million, other income increased $.4 million, the change in fair market value of securities decreased $2.3 million, and the change in the fair market value of swaps decreased $.1 million.

Program expenses for business-type activities decreased $6.3 million from $123.6 million in 2011 to $117.3 million in 2012. Bond financed loan program expenses decreased by $9.8 million, administrative expenses, or expenses not directly attributable to programs, increased by $1.2 million, loan servicing expenses increased by $2.2 million and other loan program expenses increased by $.1 million. The line items related to these expenses are presented in detail in Table 2.

The excess of revenues over expenses for business-type activities was $12.0 million in 2012 compared to $4.0 million excess of revenues over expenses in 2011, an increase of $8.0 million from 2011. As described above and in additional detail under "Proprietary Funds," the increase is due to a $1.7 million increase in revenues and a $6.3 million decrease in expenses. Transfers-in were $2.6 million in 2012 compared to $3.3 million in 2011, a decrease of $.7 million. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities net position of $14.6 million.

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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, 2012, the Corporation retained $13.4 million for program purposes and had $2.5 million classified as program advances resulting in a total of $10.9 million classified as restricted fund balances.

During fiscal year 2012, the Affordable Housing Trust Fund had revenues less than expended funds of $1.1 million, thereby decreasing the program's fund net position. Rental Assistance programs operated in such a manner that most revenues were either expended for the programs, $144.6 million, or transferred to proprietary funds, $2.6 million. Similarly, all HOME program revenues, $19.7 million, were expensed in an equal amount in 2012, as were Treasury Housing Credit revenues of $12.5 million, and Weatherization revenues of $28.2 million. Revenues of the Unemployment Bridge program exceeded expenses by $.8 million, thereby increasing the fund net position of the Unemployment Bridge funds. Finally, Other Housing Funds expenses exceeded revenues by $1.2 million, thereby decreasing the fund net position of Other Housing Funds.

Proprietary Funds – Pages 18 through 22

The significant portion of the Corporation's financial resources and activities is reported in the proprietary fund financial statements. Proprietary funds account for over 99% of corporate assets, 90% of non-grant revenues, 91% of operating expenses and 100% of the Corporation's 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 93% of the total assets, 87% of total revenues, and 79% 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.

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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 of the housing finance program.

During 2012 the Corporation began to supplement 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. These mortgages are subsequently 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" 48 hours prior to the established trade settlement date.

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

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

	2012	2011 (restated)	Change
Program-Purpose Assets:			
Mortgage loans	$ 985.8	$ 1,130.6	$ (144.8)
Mortgage-backed securities	755.3	952.2	(196.9)
Housing construction loans	3.0	3.3	(.3)
Other loans	11.6	11.6	-
Total Program-Purpose Assets	1,755.7	2,097.7	(342.0)
Cash and Investments	578.9	400.5	178.4
Loans held for sale	16.2	-	16.2
Other assets	13.2	15.5	(2.3)
Total Assets	2,364.0	2,513.7	(149.7)
Total Deferred Outflows of Resources	15.0	12.4	2.6
Bonds payable	(1,911.4)	(2,100.7)	(189.3)
Other liabilities	(143.6)	(118.1)	25.5
Total Liabilities	(2,055.0)	(2,218.8)	(163.8)
Total Deferred Inflows of Resources	(16.0)	(13.9)	2.1
Fund Net Position	$ 308.0	$ 293.4	$ 14.6

(Continued)

Mortgage loans, mortgaged-backed securities, housing construction loans and other loans decreased by $342.0 million or 16% during 2012. Total program-purpose assets at June 30, 2012 were $1.76 billion. The decrease was the result of mortgage loan funding of $73.8 million, mortgage loan repayments of $175.3 million, conversion of mortgage loans to mortgage-backed securities of $41.3 million, a loan loss provision increase of $1.7 million, an accrued mortgage loan interest decrease of $.3 million, plus net decreases in mortgage-backed securities, housing construction loans and other loans of $197.2 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, 2012, the Debt Service Reserve requirement was $135.2 million and the amount on deposit was $197.2 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.)

During 2012, the Corporation issued short- and long-term bonds and incurred other short-term debt (lines of credit) in the amount of $300.8 million. This includes Housing Revenue Bonds issued of $237.8 million, plus bond premiums received of $2.1 million. Total bond and line-of-credit principal repayments was $463.1 million and the change in net unamortized bond premium was $1.2 million. As a result of this activity, bonds outstanding decreased $189.3 million and short-term debt increased by $27.8 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.

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

	2012	2011 (restated)	Change
Interest income--loans	$ 53.6	$ 61.5	$ (7.9)
Interest income--mortgage-backed securities	38.7	45.2	(6.5)
Interest income--investment securities	1.9	1.9	-
Total interest income	94.2	108.6	(14.4)
Interest expense	(82.5)	(93.6)	11.1
Net Interest income	11.7	15.0	(3.3)
Increase in fair value of marketable securities	4.3	6.7	(2.4)
Increase (decrease) in fair market value of swaps	0.5	0.6	(0.1)
Gains on sales of mortgage-backed and marketable securities and loans held for sale	18.1	-	18.1
Provision for loan losses	(1.3)	(2.6)	1.3
Net Investment Income	33.3	19.7	13.6
Other income	12.1	11.7	0.4
General and administrative expenses	(23.5)	(18.1)	(5.4)
Other expenses	(9.9)	(9.3)	(0.6)
Interfund transfers	2.6	3.3	(0.7)
Changes in Fund Net Position	$ 14.6	$ 7.3	$ 7.3

Net assets increased by $14.6 million in 2012, compared a $7.3 million for 2011. The increase is attributable to several factors. Gains on sales of mortgage-backed and other marketable securities and loans held for sale increased totaled $18.1 million in 2012, and there were no such sales in 2011. The fair value of investment securities increased by $4.3 million in 2012 compared to a $6.7 million increase in 2011, representing an overall decrease of $2.4 million. Generally, investment securities the Corporation holds, specifically its mortgage-backed securities, will increase in value as market interest rates decline.

Net interest, the difference between total interest income and interest expense, decreased by $3.3 million from $15.0 million in 2011 to $11.7 million in 2012. Other (fee) income increased $.4 million from $11.7 million in 2011 to $12.1 million in 2012. The change in fair market value of swaps decreased from a positive $.6 million in 2011 to a positive $.5 million in 2012, a decrease of $.1 million. The provision for loan losses decreased by $1.3 million, from $2.6 million in 2011 to $1.3 million in 2012.

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Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs and servicing release premiums, increased by $.6 million from $9.3 million in 2011 to $9.9 million in 2012. General and administrative expenses increased by $5.4 million from $18.1 million in 2011 to $23.5 million in 2012.

Finally, changes in fund net position were impacted by interfund transfers of $2.6 million, a decrease of $.7 million from the $3.3 million transferred in 2011. (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.

The Corporation experienced mortgage loan production of $135.5 million in 2012, with $61.7 million of these loans being loans sold into the secondary market or held for sale at June 30, 2012. The Corporation was also able to issue $239.8 million of Housing Revenue Bonds, with $187.9 million of this total being the 2012 Series A economic refunding issue. The Corporation's credit strength continued to be received favorably by both the retail and institutional investment community. This strong demand resulted in lower yields for the Corporation's bonds.

As of June 30, 2012, the total amount of variable rate debt to total debt was $200.8 million of the $1.87 billion total long-term debt portfolio, or 10.7%. The Corporation mitigates interest rate risk with interest rate swaps on $179.1 million of its variable rate debt. Only one swap, 2006 Series W, has been deemed ineffective under GASB 53. The Corporation continues to manage its balance sheet with redemption and bond structure strategies.

Asset default poses a smaller risk to the Corporation because of conservative bond covenants in effect. All investment securities are either instruments of the federal government or federal agencies or money market funds fully collateralized by federal government or agency obligations. Further, the substantial portions of mortgage loans held in the portfolio are insured by federal agencies. Mortgage loans held in GNMA MBS's with a book value of $448.5 million are guaranteed as to principal and interest by GNMA while $162.8 million of the book value of the FNMA MBS's are fully guaranteed by FNMA. Additional information on the Corporation's allowance for loan losses can be found in Notes D, E and F in the "Notes to Financial Statements".

The Corporation successfully undertook an economic refunding through the issuance of $187.9 million in housing revenue bonds (2012 Series A), which will result in substantial savings of interest expense (net present value of $13.7 million) over the life of the bonds. Although this transaction closed in June 2012, the equivalent amount of bonds was refunded in July 2012.

Given current market conditions, it is uncertain whether or not the Corporation will be able to issue Housing Revenue Bonds during fiscal 2013. Therefore, the Corporation intends to continue funding single family loan production through the Secondary Market Mortgage Purchase program. Through this program, which is funded outside the bond indenture, the Corporation agrees to purchase various mortgage loans from its lenders partners. These mortgages are subsequently 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

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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" 48 hours prior to the established trade settlement date. The program allows the Corporation to fund mortgage loans at competitive market rates with the intent of selling the mortgages at a premium. The Corporation is also exploring and evaluating other financing options for its single family mortgage program.

In addition to unfavorable market conditions the Corporation will not be able to utilize the New Issue Bond Purchase Program ("NIBP") in fiscal year 2013. During fiscal year 2012, the Corporation utilized the remainder of the bonding allocation available through this program. The NIBP was a joint initiative with the U.S. Department of Treasury, Department of Housing and Urban Development, Federal Housing Finance Agency, Fannie Mae and Freddie Mac to maintain the viability of Housing Finance Agency ("HFA") lending programs and infrastructure. As part of the NIBP, the Corporation was able to receive $180 million in long-term funding at an interest rate equal to the 10 year U.S. Treasury yield plus 60 basis points. With the Corporation's AAA rating, it received the most favorable pricing offered within the program. The Corporation drew the remaining $30 million in NIBP funds during fiscal year 2012 in conjunction with the 2011 Series B bonds.

Kentucky's economic environment of sustained high unemployment and depressed housing markets has stressed the Corporation's balance sheet in recent years. However, these conditions are improving and the Corporation has seen significant reduction in loan delinquency and foreclosures. Additionally, aggressive efforts to work with delinquent mortgagors have resulted in quicker resolution and improved loss mitigation.

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

Consistent with its mission, the Corporation continues to serve Kentuckians seeking to become first-time homebuyers with competitive rates, MCC's and down-payment assistance. As discussed previously, the Corporation now also utilizes its Secondary Market Mortgage Purchase program to fund single family loans, and is continuously seeking new products and services to meet the needs of the populations it serves. With continued aggressive balance sheet management and the addition of new products and funding sources, the Corporation expects to sustain 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, 2012. Questions and inquiries may be directed to Donna E. Duncan, Chief Financial Officer at Kentucky Housing Corporation, 1231 Louisville Road, Frankfort, Kentucky 40601. Telephone: (502) 564-7630, x354, fax: (502) 564-7322, e-mail: dduncan@kyhousing.org.

Kentucky Housing Corporation
Corporation-Wide Statement of Net Position
June 30, 2012
(Dollars in thousands)

ASSETS	Governmental Activities	Business-Type Activities	Combined Totals
Current Assets			
Cash and cash equivalents	$ 6,000	$ 73,814	$ 79,814
Investment securities	7,828	413,110	420,938
Mortgage-backed securities	-	27,123	27,123
Housing mortgage loans held for sale	-	16,180	16,180
Housing mortgage loans	-	40,519	40,519
Housing construction loans	-	3,018	3,018
Other loans	-	871	871
Accounts receivable and other assets	4,966	7,082	12,048
Interfund accounts	(704)	704	-
Total Current Assets	18,090	582,421	600,511
Noncurrent Assets			
Investment securities	-	92,007	92,007
Mortgage-backed securities	-	728,209	728,209
Housing mortgage loans	-	933,778	933,778
Other loans	-	10,684	10,684
Real estate owned and related receivables	-	11,469	11,469
Capital assets	-	3,963	3,963
Other noncurrent assets	-	1,500	1,500
Total Noncurrent Assets	-	1,781,610	1,781,610
Total Assets	18,090	2,364,031	2,382,121
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of derivatives - interest rate swaps	-	15,026	15,026
LIABILITIES			
Current Liabilities			
Lines of credit	-	31,881	31,881
Accounts payable and other liabilities	7,165	1,319	8,484
Accrued interest payable	-	37,965	37,965
Escrows and project reserves	-	58,217	58,217
Revenue bonds, due within one year	-	228,920	228,920
Total Current Liabilities	7,165	358,302	365,467
Noncurrent Liabilities			
Revenue bonds, due after one year	-	1,682,499	1,682,499
Other noncurrent liabilities	-	14,261	14,261
Total Noncurrent Liabilities	-	1,696,760	1,696,760
Total Liabilities	7,165	2,055,062	2,062,227
DEFERRED INFLOWS OF RESOURCES			
Accumulated increase in fair value of derivatives - interest rate swaps	-	16,024	16,024
NET POSITION			
Invested in capital assets	-	3,963	3,963
Restricted by			
Revenue bond indenture	-	242,966	242,966
Enabling legislation	-	7,365	7,365
Program requirements	10,925	-	10,925
Unrestricted	-	53,677	53,677
Net Position	$ 10,925	$ 307,971	$ 318,896

See Notes to Financial Statements.

Kentucky Housing Corporation
Corporation-Wide Statement of Activities
Year Ended June 30, 2012
(Dollars in thousands)

	Program Revenues				Net (Expense) Revenues and Changes in Net Position		
	Direct Expenses		Charges for	Operating	Governmental	Business-Type	
Functions/Activities	**Grants**	**Operating**	**Services**	**Grants**	**Activities**	**Activities**	**Total**
Governmental Activities							
Rental subsidy administration	$144,640	$ 5,016	$ 7,581	$ 144,640	$ 2,565	$	$ 2,565
HOME program	19,632	1,050	1,050	19,632	-	-	-
Treasury Housing Credit	12,475	-	-	12,475	-	-	-
Weatherization	30,161	956	956	30,161	-	-	-
Unemployment Bridge	16,022	3,090	3,090	16,814	792	-	792
Other federal and state housing programs	21,598	1,322	1,322	19,314	(2,284)	-	(2,284)
Total Governmental Activities	244,528	11,434	13,999	243,036	1,073	-	1,073
Business-Type Activities							
Administrative	2,111	10,395	888	-	-	$ (11,618)	(11,618)
Bond financed loan programs	-	93,403	113,376	-	-	19,973	19,973
Loan servicing	-	8,754	7,876	-	-	(878)	(878)
Other loan and housing credit programs	-	2,609	7,133	-	-	4,524	4,524
Total Business-Type Activities	2,111	115,161	129,273	-	-	12,001	12,001
Total Activities	$246,639	$ 126,595	$ 143,272	$ 243,036	1,073	12,001	13,074
Transfers					(2,565)	2,565	-
Change in Net Position					(1,492)	14,566	13,074
Net Position, Beginning of Year					12,417	293,405	305,822
Net Position, End of Year					$ 10,925	$ 307,971	$ 318,896

See Notes to Financial Statements.

Kentucky Housing Corporation
Balance Sheet – Governmental Funds
June 30, 2012
(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	$ 2,015	$ 146	$ -	$ -	$ 2,464	$ 101	$ 1,274	$ 6,000
Investment securities	4,377	-	-	-	-	3,415	36	7,828
Accounts receivable and other assets	-	1,090	-	2,933	-	-	943	4,966
Interfund accounts	-	(68)	-	(126)	(312)	-	(198)	(704)
Total Current Assets	6,392	1,168	-	2,807	2,152	3,516	2,055	18,090
Noncurrent Assets								
Program loans	6,470	104,178	66,903	-	-	16,835	13	194,399
Less loan loss provision	(6,470)	(104,178)	(66,903)	-	-	(16,835)	(13)	(194,399)
Total Noncurrent Assets	-	-	-	-	-	-	-	-
Total Assets	$ 6,392	$ 1,168	$ -	$ 2,807	$ 2,152	$ 3,516	$ 2,055	$ 18,090
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	$ -	$ 1,168	$ -	$ 2,807	$ 2,152	$ 202	$ 836	$ 7,165
FUND NET POSITION								
Restricted by program requirements	6,392	-	-	-	-	3,314	1,219	10,925
Total Liabilities and Fund Net Position	$ 6,392	$ 1,168	$ -	$ 2,807	$ 2,152	$ 3,516	$ 2,055	$ 18,090

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Revenues, Expenditures and Changes in Fund Net Position – Governmental Funds
Year Ended June 30, 2012
(Dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Treasury Housing Credit	Weatherization Assistance	Rental Assistance	Unemployment Bridge	Other Housing Funds	Combined Totals
Revenues								
Federal and state administrative fees	$ -	$ 1,050	$ -	$ 956	$ 7,581	$ 3,090	$ 1,322	$ 13,999
Pass-through grant revenues	5,389	19,632	12,475	30,161	144,640	16,814	13,925	243,036
Total Revenues	5,389	20,682	12,475	31,117	152,221	19,904	15,247	257,035
Expenditures								
General and administrative	-	1,050	-	956	5,016	3,090	1,322	11,434
Pass-through grant expenditures	6,469	19,632	12,475	30,161	144,640	16,022	15,129	244,528
Total Expenditures	6,469	20,682	12,475	31,117	149,656	19,112	16,451	255,962
Revenues in Excess of / (Less Than) Expenditures	(1,080)	-	-	-	2,565	792	(1,204)	1,073
Interfund Transfers	-	-	-	-	(2,565)	-	-	(2,565)
Change in Fund Net Position	(1,080)	-	-	-	-	792	(1,204)	(1,492)
Fund Net Position, Beginning of Year	7,472	-	-	-	-	2,522	2,423	12,417
Fund Net Position, End of Year	$ 6,392	$ -	$ -	$ -	$ -	$ 3,314	$ 1,219	$ 10,925

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Net Position – Proprietary Funds
June 30, 2012
(Dollars in thousands)

ASSETS	**General Funds**	**Housing Revenue Bond Funds**	**Housing Development Fund**	**Combined Totals**
Current Assets				
Cash and cash equivalents	$ 66,520	$ 4,723	$ 2,571	$ 73,814
Investment securities	6,392	406,154	564	413,110
Mortgage-backed securities	-	27,123	-	27,123
Housing mortgage loans held for sale	16,180	-	-	16,180
Housing mortgage loans	2,247	38,272	-	40,519
Housing construction loans	638	-	2,380	3,018
Other loans	871	-	-	871
Accounts receivable and other assets	7,082	-	-	7,082
Interfund accounts	(1,078)	(68)	1,850	704
Total Current Assets	98,852	476,204	7,365	582,421
Noncurrent Assets				
Investment securities	-	92,007	-	92,007
Mortgage-backed securities	53	728,156	-	728,209
Housing mortgage loans	47,550	886,228	-	933,778
Other loans	10,684	-	-	10,684
Real estate owned and related receivables	-	11,469	-	11,469
Capital assets	3,963	-	-	3,963
Other noncurrent assets	398	1,102	-	1,500
Total Noncurrent Assets	62,648	1,718,962	-	1,781,610
Total Assets	161,500	2,195,166	7,365	2,364,031
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of derivatives - interest rate swaps	-	15,026	-	15,026

Continued

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Net Position – Proprietary Funds
June 30, 2012
(Dollars in thousands)

LIABILITIES	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Current Liabilities				
Lines of credit	$ 31,881	$ -	$ -	$ 31,881
Accounts payable and other liabilities	957	362	-	1,319
Accrued interest payable	-	37,965	-	37,965
Escrows and project reserves	58,217	-	-	58,217
Revenue bonds, due within one year	-	228,920	-	228,920
Total Current Liabilities	91,055	267,247	-	358,302
Noncurrent Liabilities				
Revenue bonds, due after one year	-	1,682,499	-	1,682,499
Other noncurrent liabilities	12,805	1,456	-	14,261
Total Noncurrent Liabilities	12,805	1,683,955	-	1,696,760
Total Liabilities	103,860	1,951,202	-	2,055,062
DEFERRED INFLOWS OF RESOURCES				
Accumulated increase in fair value of derivatives - interest rate swaps	-	16,024	-	16,024
FUND NET POSITION				
Invested in capital assets	3,963	-	-	3,963
Restricted by				
Revenue bond indenture	-	242,966	-	242,966
Enabling legislation	-	-	7,365	7,365
Unrestricted	53,677	-	-	53,677
Fund Net Position	$ 57,640	$ 242,966	$ 7,365	$ 307,971

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
Year Ended June 30, 2012
(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	$ 2,094	$ 51,458	$ 85	$ 53,637
Mortgage-backed securities	-	38,725	-	38,725
Marketable securities	-	1,940	-	1,940
Net increase in fair value of marketable securities	-	4,269	-	4,269
Net increase in fair market value of swaps	-	498	-	498
Gains on sales of mortgage-backed and marketable securities	3,123	14,967	-	18,090
Fees, charges and other income	11,123	991	-	12,114
Total Operating Revenues	16,340	112,848	85	129,273
Operating Expenses				
Interest on revenue bonds and notes payable	136	82,397	-	82,533
Provision for losses on loans	292	1,026	(41)	1,277
General and administrative	21,981	1,456	-	23,437
Housing assistance grants	2,111	-	-	2,111
Mortgage loan servicers' fees	17	3,351	-	3,368
Loan origination costs	1,314	1,115	-	2,429
Debt issuance costs	-	2,117	-	2,117
Total Operating Expenses	25,851	91,462	(41)	117,272
Operating Income (Loss)	(9,511)	21,386	126	12,001
Interfund Transfers	8,877	(6,312)	-	2,565
Change in Fund Net Position	(634)	15,074	126	14,566
Fund Net Position, Beginning of Year	58,274	227,892	7,239	293,405
Fund Net Position, End of Year	$ 57,640	$ 242,966	$ 7,365	$ 307,971

See Notes to Financial Statements.

Kentucky Housing Corporation
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2012
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 2,094	$ 51,458	$ 89	$ 53,641
Gain on sales of loans held for sale	2,725	-	-	2,725
Fees, charges and other income	12,556	-	-	12,556
Personnel costs	(14,335)	-	-	(14,335)
Operating expenses	(7,878)	(4,466)	-	(12,344)
Housing assistance grants	(2,111)	-	-	(2,111)
Fundings of housing mortgage loans	(76,476)	(59,024)	-	(135,500)
Repayments on housing mortgage loans	7,533	167,727	-	175,260
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	45,533	41,344	-	86,877
Net changes in housing construction loans	(54)	-	409	355
Other, net	405	889	650	1,944
Net Cash Provided By (Used In) Operating Activities	(30,008)	197,928	1,148	169,068
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit and issuance of revenue bonds	63,050	239,837	-	302,887
Payments for debt issuance costs	-	(1,799)	-	(1,799)
Principal payments on lines of credit and revenue bonds	(35,259)	(427,890)	-	(463,149)
Interest payments on revenue bonds and lines of credit	(136)	(90,934)	-	(91,070)
Changes in escrows and project reserves	3,295	-	-	3,295
Interfund transfers	8,877	(6,312)	-	2,565
Net Cash Provided By (Used In) Noncapital Financing Activities	39,827	(287,098)	-	(247,271)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(88)	-	-	(88)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(90,337)	(1,509,012)	-	(1,599,349)
Conversion of mortgage loans to mortgage-backed securities	-	(41,344)	-	(41,344)
Sales of investments and mortgage-backed securities	86,958	1,585,485	-	1,672,443
Gain on sales of investments and mortgage-backed securities	-	14,967	-	14,967
Interest received on investments and mortgage-backed securities	2	41,618	-	41,620
Net Cash Provided By (Used In) Investing Activities	(3,377)	91,714	-	88,337
Net Increase (Decrease) in Cash and Cash Equivalents	6,354	2,544	1,148	10,046
Cash and Cash Equivalents, Beginning of Year	60,166	2,179	1,423	63,768
Cash and Cash Equivalents, End of Year	$ 66,520	$ 4,723	$ 2,571	$ 73,814

See Notes to Financial Statements.

(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	$ (9,511)	$ 21,386	$ 126	$ 12,001
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(398)	-	-	(398)
Provision for losses on loans	292	1,026	(41)	1,277
General and administrative	-	1,456	-	1,456
Debt issuance costs	-	2,117	-	2,117
Depreciation expense	457	-	-	457
Interest expense on revenue bonds and lines of credit	136	82,397	-	82,533
Interest income on mortgage-backed securities	-	(38,725)	-	(38,725)
Interest income on marketable securities	-	(1,940)	-	(1,940)
Net (increase) decrease in fair value of marketable securities	-	(4,269)	-	(4,269)
Net (increase) decrease in fair value of swaps	-	(498)	-	(498)
Gain on sale of mortgage-backed and marketable securities	-	(14,967)	-	(14,967)
Other income	-	(991)	-	(991)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(76,476)	(59,024)	-	(135,500)
Repayments on housing mortgage loans	7,533	167,727	-	175,260
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	45,533	41,344	-	86,877
Housing construction loans	(54)		409	355
Other, net	2,480	889	654	4,023
Net Cash Provided By (Used In) Operating Activities	$ (30,008)	$ 197,928	$ 1,148	$ 169,068

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

<u>Basis of Presentation</u>: The Corporation's financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and related statements, and are comprised of three components: 1) Corporation-Wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Corporation-Wide financial statements are comprised of a statement of net position and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements reflect all of the assets, liabilities, revenues, expenses, 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 current 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. Additional funds are also currently available through the Tax Credit Assistance Program ("TCAP"), which is a part of the American Recovery and Reinvestment Act ("ARRA"). TCAP provides funding for capital investment in Low Income Tax Credit projects and will be used to fill gaps caused by the collapse of the tax credit equity market, to assist stalled development projects, and to stimulate economic activity that would most notably take the form of job creation.

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

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

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. 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 Indentures.

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

Cash and Cash Equivalents: Cash consists of cash held by depository institutions and a trustee in the Corporation's name as well as amounts collected by loan servicers but not yet remitted to the trustee. The Corporation's cash and cash equivalents include money market funds utilized for operations, not for investment policy purposes.

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

The Corporation securitizes a large portion of its conventionally insured housing mortgage loans by converting them into mortgage-backed securities through the Federal National Mortgage Association ("Fannie Mae"). The Corporation retains the servicing rights to the housing mortgage loans, and is subject to recourse provisions covering a portion of these housing mortgage loans (as described in Note D). The Corporation securitizes a large portion of its government insured housing mortgage loans by securitizing them into mortgage-backed securities through the Government National Mortgage Association (Ginnie Mae). The Corporation also retains the servicing rights to these mortgage loans.

Loans and Allowance for Loan Losses: Housing mortgage loans, housing construction loans and other loans are stated at remaining principal balances, plus accrued interest, less allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience.

(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 the borrower's ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering the economic climate, business conditions, and collection efforts that the borrower's financial condition is such that collection of interest is doubtful.

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 and the guaranteed portion will be remitted.

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, net of related debt."

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, are eliminated in the governmental and business-type activities columns of the Corporation-Wide statement of net position. Net residual amounts due between governmental and business-type activities are reflected as receivable (payable) for internal balances.

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 deferred and amortized by the effective interest method over the term of the related debt. Revenue bonds payable are reported net of the applicable bond premium or discount.

Debt 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 early adopted the following accounting standards during the year:

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement improves financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local government so that they derive from a single source. The Corporation has determined this Statement will have no effect on its financial statements.

- 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*. The objectives of these statements are to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and the reclassifications of amounts previously reported as assets and liabilities to deferred outflows of resources and deferred inflows of resources.

  The Corporation retroactively adopted the new GASB accounting standards during the year that allow for loan activities to be recognized in the year the transaction occurred rather over the life of the loan. At July 1, 2011, the Corporation had $14.373 in deferred debt issuance cost and $18.78 in deferred loan cost assets, and $.971 in loan origination fee deferred revenue. This change in accounting principle resulted in an overall decrease in beginning proprietary fund and government wide net position at July 1, 2011, of $32.188 million.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* has been evaluated and the Corporation has determined this Statement will have no effect on its financial statements.

- GASB Statement No. 66, *Technical Corrections – 2012* amends GASB Statement No. 10 and GASB Statement No. 62. The Corporation has determined this Statement will have no effect on its financial statements.

Other GASB standards that are under evaluation include:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* is effective for the fiscal year ending June 30, 2103, 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. The Corporation has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

(Continued)

(Dollars in thousands)

Note C--Cash, Cash Equivalents and Investments

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

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

Cash and Cash Equivalents: At June 30, 2012, the carrying amount of the Corporation's cash and cash equivalents was $79,814 and the bank balance was $76,555. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $76,555 bank balance, $69,862 was covered by federal depository insurance and $6,693 was collateralized. For the funds collateralized by the financial institutions, the collateral equals or exceeds at least 102 percent (102%) of the value of the uninsured funds on deposit as required by the Corporation's investment policies, and the collateral is held by the financial institutions or a third party in the name of the Corporation.

Investment and Mortgage-Backed Securities: At June 30, 2012 the Corporation had the following:

Investment Type	Fair Value	Effective Duration (in Years)
U.S. Treasuries	$ 16,801	6.13
Mortgage-backed securities	755,332	1.30
U.S. government-sponsored enterprises	75,206	1.85
Certificates of deposit	940	0.00
Money Market Funds	419,998	0.00
Total Investment and Mortgage-Backed Securities	1,268,277	
Less amounts shown as current assets	448,061	
Noncurrent Investment and Mortgage-Backed Securities	$ 820,216	
Portfolio effective duration		0.97

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, 2012:

Investment Type	Moody's Rating
Mortgage-backed securities	Aaa
U.S. Treasuries	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, 2012 consist of the following:

Issuer	Fair Value	Percentage of Portfolio
GNMA	$ 492,498	39%
Fannie Mae	262,834	21%
Dreyfus	419,984	33%
U.S. government-sponsored enterprises	75,206	6%

The pooled mortgages securitized as Fannie Mae investments with a fair value of $262,834 had a book value of $240,588 at June 30, 2012. Of the $240,588, $40,815 is with full recourse to the Corporation with a five percent stop loss provision in place and $29,830 is with full recourse to the Corporation. The remaining balance of $162,822 is without recourse to the Corporation.

The pooled mortgages securitized as GNMA investments with a fair value of $492,498 had a book value of $448,527 at June 30, 2012. This entire balance is without recourse to the Corporation.

(Continued)

(Dollars in thousands)

Note D--Housing Mortgage Loans

At June 30, 2012, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$ 882,089
Multi-family (B)	39,753
Total Housing Revenue Bond Funds	921,842
General Housing Assistance Funds (C)	54,160
Total Principal	976,002
Add accrued interest receivable on loans	4,664
Total Principal and Accrued Interest	980,666
Less allowance for loan losses	6,369
Net Housing Mortgage Loans	974,297
Less amount shown as current assets	40,519
Noncurrent Housing Mortgage Loans	$ 933,778

Additional information related to loans includes:

Note (A) Single Family includes $845,641 in federally insured or guaranteed loans, $20,443 of non-insured loans with initial loan-to-value ratios less than 90%, and $16,005 of loans covered by private mortgage insurance.

Note (B) Multifamily includes $34,422 in federally insured or guaranteed loans and $5,331 in non-insured loans.

Note (C) General Housing includes $13,180 in federally insured or guaranteed loans, and $19 in privately insured loans and $40,961 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 $892.

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 $1,764.

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. Such loans are net of an allowance for losses of $735.

Loan Commitments: At June 30, 2012, the Corporation is committed to make housing mortgage loans and housing construction loans totaling $29,928 and $1,291, respectively.

(Continued)

(Dollars in thousands)

Note F--Capital Assets

Major classes of capital assets at June 30, 2012 and activity during the year follows:

Business-Type Activities	Balance July 1, 2011	Additions	Retirements and Dispositions	Balance June 30, 2012
Land	$ 1,089	$ -	$ -	$ 1,089
Buildings	5,036	-	-	5,036
Equipment	4,616	88	-	4,704
Less accumulated depreciation	(6,409)	(457)	-	(6,866)
Net Capital Assets	$ 4,332	$ (369)	$ -	$ 3,963

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, 2012 and activity during the year follows:

Business-Type Activities	Balance July 1, 2011	Borrowings	Repayments and Dispositions	Balance June 30, 2012
Loan Warehousing Line of Credit 1	$ 4,090	$ 10,000	$ 14,090	$ -
Loan Warehousing Line of Credit 2	-	53,050	21,169	31,881
	$ 4,090	$ 63,050	$ 35,259	$ 31,881

Additional information related to lines of credit includes:

- The Loan Warehousing Line of Credit 1 matured September 7, 2011.
- The Loan Warehousing Line of Credit 2 ("Line 2") is used only for the purchase of mortgage loans. Borrowings are repaid upon the next issuance of Housing Revenue Bonds or the sale of loans into the secondary loan market. The line provides for borrowings up to $40,000, bears interest at the one-month LIBOR plus 60 basis points, and matures June 30, 2013. At June 30, 2012 this interest rate was .85%.
- Subsequent to June 30, 2012 an additional Loan Warehousing Line of Credit was obtained for the same purposes as Line 2. This new line provides for borrowings up to $25,000, bears interest at the one-month LIBOR plus 60 basis points and matures August 15, 2013.

(Continued)

(Dollars in thousands)

Note H--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2012 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2011	Issued	Repaid/ Retired	Balance June 30, 2012	Amount Due Within One Year
Housing Revenue Bonds:						
1997 Series D:						
2028-2031, 5.60%	$ 22,550	$ 3,175	$ -	$ 3,175	$ -	$ -
1998 Series A:						
2013-2018, 5.125%	10,845	1,375	-	1,375	-	-
1998 Series B:						
2013-2031, 5.00% to 5.30%	29,155	16,915	-	16,915	-	-
1998 Series D:						
2013-2039, 5.00% to 5.125%	8,205	3,285	-	3,285	-	-
1998 Series E:						
2014-2031, 4.75% to 5.00%	6,290	6,290	-	6,290	-	-
1998 Series F:						
2019-2031, 5.00%	64,565	35,410	-	35,410	-	-
1999 Series A:						
2014-2031, 5.00% to 5.20%	13,300	13,300	-	13,300	-	-
1999 Series B:						
2013-2023, 4.85% to 5.20%	41,700	14,335	-	14,335	-	-
1999 Series E:						
2013-2020, 5.50%	17,965	2,970	-	2,970	-	-
2000 Series F:						
2021-2027, 5.85%	47,270	7,120	-	7,120	-	-
2001 Series C:						
2022-2034, 5.55%	14,145	10,500	-	10,500	-	-
2001 Series D:						
2013-2023, 4.85%	21,210	3,485	-	3,485	-	-
2001 Series E:						
2013-2021, variable	10,000	2,750	-	2,750	-	-
2001 Series F:						
2013-2032, 4.65% to 5.45%	50,000	13,625	-	13,625	-	-
2002 Series A:						
2013-2031, 4.65% to 5.50%	55,000	20,895	-	2,150	18,745	18,745
2002 Series C:						
2013-2028, 4.30% to 5.375%	21,220	15,345	-	660	14,685	14,685
2002 Series D:						
2013-2033, 4.25% to 5.375%	50,000	37,705	-	2,235	35,470	35,430
2002 Series E:						
2013-2033, 3.70% to 5.05%	40,000	32,195	-	855	31,340	31,340

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2011	Issued	Repaid/ Retired	Balance June 30, 2012	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2002 Series F:						
2013-2034, 4.10% to 5.25%	30,000	23,035	-	2,485	20,550	20,550
2003 Series A:						
2013-2034, 3.30% to 4.75%	35,000	27,145	-	3,800	23,345	23,345
2003 Series B:						
2013-2034, 3.35% to 4.80%	55,000	36,300	-	4,685	31,615	31,465
2003 Series C:						
2016-2025, 3.80% to 4.55%	16,720	15,725	-	1,045	14,680	14,680
2003 Series D:						
2013-2034, 3.85% to 5.10%	45,000	28,265	-	3,980	24,285	865
2003 Series F:						
2013-2034, 3.415% to 4.95%	155,140	80,935	-	20,015	60,920	1,585
2003 Series G:						
2013-2034, 3.70% to 5.00%	45,000	28,945	-	3,095	25,850	890
2004 Series A:						
2013-2018, 3.80% to 4.55%	17,175	13,025	-	2,750	10,275	1,615
2004 Series B:						
2018-2025, 5.00%	22,825	7,065	-	950	6,115	-
2004 Series D:						
2013-2035, 4.00% to 5.05%	55,000	35,815	-	5,315	30,500	1,085
2004 Series F:						
2013-2035, 3.70% to 4.90%	45,000	30,570	-	4,790	25,780	860
2004 Series G:						
2013-2017, 3.40% to 4.05%	10,225	5,615	-	1,275	4,340	935
2004 Series H:						
2017-2036, 4.00% to 4.90%	29,775	20,495	-	3,275	17,220	-
2005 Series A:						
2013-2032, 4.00% to 4.75%	18,670	14,725	-	1,415	13,310	-
2005 Series B:						
2013-2033, variable	16,330	9,880	-	2,095	7,785	170
2005 Series C:						
2013-2031, 3.40% to 4.50%	22,215	17,445	-	1,305	16,140	1,090
2005 Series D:						
2019-2036, 4.60% to 5.00%	37,785	22,175	-	4,020	18,155	-
2005 Series E:						
2013-2036, 3.60% to 5.00%	80,000	59,065	-	10,925	48,140	1,390

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2011	Issued	Repaid/ Retired	Balance June 30, 2012	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2005 Series F:						
2013-2016, 4.56% to 4.78%	20,000	9,750	-	2,330	7,420	2,345
2005 Series G:						
2016-2031, 4.20% to 5.00%	37,390	26,170	-	4,545	21,625	-
2005 Series H:						
2017-2037, variable	21,925	21,925	-	-	21,925	-
2005 Series I:						
2013-2017, 4.79% to 5.04%	22,940	11,980	-	2,540	9,440	2,470
2005 Series J:						
2014-2035, 3.70% to 4.70%	8,775	7,670	-	2,330	5,340	-
2005 Series K:						
2017-2037, 5.00%	8,040	2,075	-	835	1,240	-
2005 Series L:						
2017-2037, variable	20,000	20,000	-	-	20,000	-
2006 Series A:						
2014-2035, 4.00% to 4.85%	8,775	8,480	-	585	7,895	-
2006 Series B:						
2016-2037, 4.80% to 5.25%	15,420	8,030	-	2,560	5,470	-
2006 Series C:						
2024-2037, variable	15,425	15,425	-	-	15,425	-
2006 Series D:						
2013-2016, 5.03% to 5.24%	20,000	9,620	-	2,510	7,110	2,445
2006 Series E:						
2013-2037, 3.90% to 5.00%	27,140	24,105	-	2,250	21,855	130
2006 Series F:						
2017-2030, variable	20,540	20,540	-	-	20,540	-
2006 Series G:						
2013-2035, 5.12% to 5.52%	37,220	9,610	-	6,800	2,810	1,155
2006 Series H:						
2017-2037, 4.65% to 5.00%	41,495	34,940	-	4,280	30,660	-
2006 Series I:						
2019-2032, variable	23,750	23,750	-	-	23,750	-
2006 Series J:						
2013-2035, 5.52% to 5.92%	29,390	8,770	-	7,870	900	-
2006 Series K:						
2014-2034, 4.05% to 4.80%	9,585	9,585	-	1,865	7,720	-

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2011	Issued	Repaid/ Retired	Balance June 30, 2012	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2006 Series L:						
2013-2037, 4.30% to 5.50%	19,085	8,505	-	3,640	4,865	480
2006 Series M:						
2017-2033, variable	21,000	21,000	-	-	21,000	-
2006 Series O:						
2017-2036, variable	29,035	22,065	-	3,905	18,160	-
2006 Series P:						
2014-2035, 3.80% to 4.60%	8,210	8,210	-	-	8,210	-
2006 Series Q:						
2013-2038, 4.05% to 4.90%	41,790	34,960	-	3,255	31,705	760
2006 Series R:						
2013-2038, 5.315% to 5.816%	21,700	9,205	-	4,550	4,655	120
2006 Series S:						
2013-2037, 5.88%	15,000	7,035	-	2,300	4,735	90
2006 Series T:						
2017-2038, variable	23,300	17,595	-	4,535	13,060	-
2006 Series U:						
2013-2038, 4.00% to 4.90%	45,000	42,130	-	7,430	34,700	715
2006 Series W:						
2017-2038, variable	38,380	21,030	-	3,535	17,495	-
2007 Series A:						
2013-2038, 3.90% to 4.65%	39,545	37,585	-	1,720	35,865	465
2007 Series B:						
2013-2038, 5.03% to 5.58%	38,000	20,355	-	7,810	12,545	595
2007 Series C:						
2013-2038, 4.00% to 4.80%	50,000	47,680	-	4,480	43,200	760
2007 Series D:						
2013-2038, 5.345% to 5.745%	30,000	14,690	-	4,050	10,640	-
2007 Series E:						
2013-2038, 4.00% to 4.85%	45,000	43,010	-	2,225	40,785	680
2007 Series F:						
2013-2038, 5.08% to 5.53%	30,000	14,445	-	7,345	7,100	-
2007 Series G:						
2014-2035, 3.90% to 4.75%	6,285	6,285	-	-	6,285	-
2007 Series H:						
2013-2038, 4.125% to 5.00%	34,965	30,420	-	5,655	24,765	635

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2011	Issued	Repaid/ Retired	Balance June 30, 2012	Amount Due Within One Year
Housing Revenue Bonds-Continued						
2007 Series I:						
2013-2038, 5.34% to 5.77%	16,620	8,000	-	3,300	4,700	-
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	-
2007 Series L:						
2013-2038, 4.10% to 5.50%	25,485	22,540	-	2,395	20,145	100
2007 Series M:						
2013-2037, 5.19% to 6.06%	27,000	17,355	-	8,175	9,180	515
2007 Series N:						
2013-2038, 3.85% to 5.125%	40,000	35,500	-	8,325	27,175	510
2007 Series O:						
2013-2038, variable	10,000	7,650	-	125	7,525	130
2008 Series A:						
2013-2038, 3.05% to 5.30%	39,270	34,330	-	5,470	28,860	565
2008 Series C:						
2013-2034, 3.45% to 5.00%	14,230	14,230	-	-	14,230	115
2008 Series D:						
2013-2039, 4.10% to 5.65%	35,770	31,560	-	7,975	23,585	615
2008 Series E:						
2013-2039, 2.85% to 5.45%	60,000	55,260	-	4,890	50,370	1,100
2008 Series F:						
2020-2038, 5.625%	10,000	7,540	-	2,935	4,605	-
2009 Series A:						
2013-2040, 2.25% to 5.75%	40,000	37,450	-	5,830	31,620	840
2009 Series B:						
2013-2040, 1.40% to 5.15%	60,000	57,405	-	5,010	52,395	1,030
2009 Series C:						
2042, variable	120,000	30,000	-	30,000	-	-
2009 Series C, Sub series C-1:						
2027-2042, 3.81%	60,000	59,815	-	3,075	56,740	-
2009 Series C, Sub series C-2:						
2028-2042, 3.81%	60,000	60,000	-	1,780	58,220	-
2009 Series C, Sub series C-3:						
2028-2042, 3.55%	30,000	30,000	-	240	29,760	-

(Continued)

(Dollars in thousands)

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

	Original Face Amount	**Balance July 1, 2011**	**Issued**	**Repaid/ Retired**	**Balance June 30, 2012**	**Amount Due Within One Year**
Housing Revenue Bonds-Continued						
2009 Series C, Sub series C-4:						
2028-2042, 2.52%	30,000	-	30,000	-	30,000	-
2010 Series A:						
2013-2027, 0.60% to 5.00%	40,000	38,900	-	3,835	35,065	1,825
2010 Series B:						
2013-2027, 0.60% to 5.00%	40,000	39,350	-	3,350	36,000	1,855
2010 Series C:						
2028-2034, 4.375% to 4.625%	10,000	9,125	-	1,155	7,970	-
2010 Series D:						
2015-2027, 3.05% to 5.25%	46,000	43,490	-	3,965	39,525	-
2010 Series E:						
2021-2036, 3.625% to 4.75%	20,000	20,000	-	-	20,000	-
2011 Series A:						
2013-2028, 0.50% to 5.00%	20,000	20,000	-	670	19,330	995
2011 Series B:						
2013-2028, 0.35% to 4.25%	20,000	-	20,000	-	20,000	575
2012 Series A:						
2013-2034, 0.53% to 4.268%	187,755	-	187,755	-	187,755	3,580
Total Housing Revenue Bonds	$ 3,271,050	2,096,570	$ 237,755	$ 427,890	1,906,435	$ 228,920
Unamortized premium		4,115			4,984	
Net Revenue Bonds		$ 2,100,685			$ 1,911,419	

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

The 2012 Series A bonds refunded in their entirety the 2002 Series A, C, D, E and F bonds and the 2003 Series A, B and C bonds. Although the 2012 Series A bonds closed on June 27, 2012, the redemptions of these specific series occurred in July 2012. The refunding will result in savings of interest expense (net present value of $13.7 million) over the life of the bonds.

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

(Continued)

(Dollars in thousands)

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

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

	Amortization of Principal	Interest Expense	Total Debt Service
Fiscal years ending June 30,			
2013	$ 228,920	$ 74,103	$ 303,023
2014	52,790	72,686	125,476
2015	54,080	70,899	124,979
2016	55,755	68,957	124,712
2017	58,620	66,968	125,588
Five years ending June 30,			
2018-2022	324,770	297,626	622,396
2023-2027	319,935	223,820	543,755
2028-2032	373,610	147,826	521,436
2033-2037	339,275	60,395	399,670
2038-2042	98,680	6,940	105,620
	$ 1,906,435	$ 1,090,220	$ 2,996,655

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, 2011	Additions	Reductions	Balance June 30, 2012
Other noncurrent liabilities	$ 12,212	$ 2,531	$ 482	$ 14,261

(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, 2012, nine of the ten swaps were determined to be effective hedges, while the 2006 W swap has been deemed ineffective for the purposes of GASB 53. The effectively hedged swaps, which have a notional amount of $150,000 decreased in fair value by $2,639 and this amount is classified as a deferred inflow of resources. The fair value of the effectively hedged swaps is classified as a derivative instrument and has a negative aggregate fair value of $16,024, represented as Deferred Inflow of Resources.

As noted above the 2006 W swap has been deemed ineffective for purposes of GASB 53. This swap has a notional amount of $14,865 and had an increase in fair value of $498. The increase is recorded as investment revenue for the year ended June 30, 2012. The fair value of the effectively hedged swaps is classified as a derivative instrument and has a negative aggregate fair value of $15,026, represented as Deferred Outflow of Resources.

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	$ 8,585	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	$ 10,350	1/1/2017	5.700%	100% 1M LIBOR	N/A
2006 Series T	9/27/2006	$ 23,300	$ 8,425	1/1/2016	5.337%	100% 1M LIBOR	N/A
2006 Series W	11/29/2006	$ 38,380	$ 14,865	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, 2012, the swaps had a negative fair value of $16,024. 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 $150,000 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/AAA/NR.

- UBS AG (A2/A/A) serves as the counterparty for the remaining swap and accounts for $14,865 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)

(Dollars in thousands)

Note I--Interest Rate Swap Agreements—Continued

Associated Debt: As detailed above, the interest rate swaps are associated with certain debt obligations of the Corporation. On each debt service date, the Corporation pays or receives a net swap payment in conjunction with each swap. The net swap payment is the difference between the fixed rate interest paid to the counterparty and the variable rate interest received by the counterparty. As of June 30, 2012, debt service requirements of the associated bond series and net swap payments were as follows, assuming interest rates in effect at June 30, 2012:

Time Period	Principal	Interest	Net Swap Payments	Total
2013	$ 170	$ 692	$ 5,744	$ 6,606
2014	285	692	5,224	6,201
2015	160	691	4,788	5,639
2016	80	691	4,443	5,214
2017	3,305	686	4,260	8,251
2018-2022	29,300	3,222	19,158	51,680
2023-2027	47,865	2,716	13,846	64,427
2028-2032	53,035	2,034	7,254	62,323
2033-2037	44,175	1,220	1,889	47,284
Thereafter	765	111	-	876
	$ 179,140	$ 12,755	$ 66,606	$ 258,501

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, 2012, conduit debt obligations have been issued for 17 multi-family projects totaling approximately $144,573. The debt does not constitute a liability or a pledge of faith and credit of the Corporation and, accordingly, has not been reported in the Corporation-Wide financial statements.

Note 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.

(Continued)

Note K--Retirement Plan—Continued

Funding Policy: Depending on their beginning date of participation, Plan members are required to contribute 5% or 6% of their annual covered salary. The Corporation is required to contribute at an actuarially determined rate. The Corporation's rate was 19.82% and 16.98% for the years ended June 30, 2012 and 2011, respectively. Subsequent to June 30, 2012, the rate was 23.61%. The contribution requirements of Plan members and the Corporation may be amended by the Kentucky Retirement System Board of Trustees. The Corporation's required contributions to KERS for the years ended June 30, 2012, 2011 and 2010 were $2,872, $2,522 and $1,751, respectively, and were fully paid to the Plan.

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

Note 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, 2012. Settlements have not exceeded insurance coverage.

(Continued)

Note N--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and October 4, 2012, the date the financial statements were issued.

As previously discussed in Note H, in June 2012 the Corporation issued the 2012 Series A bonds in the amount of $187,755. These bonds were used to refund in their entirety the 2002 Series A, C, D E and F bonds and the 2003 Series A, B and C bonds. These redemptions were completed in July 2012.

In September of 2012 Kentucky's Attorney General announced that Kentucky Housing Corporation would be receiving $7.5 Million from the National Mortgage Settlement. These funds will be used to ameliorate the effects of the foreclosure crisis through preventing future foreclosures and keeping families in their homes, stabilizing neighborhoods where foreclosures have occurred, helping affected families recover, demolishing blighted and abandoned structures and providing more affordable, stable and reliable housing choices throughout the Commonwealth.

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 Net Position – Housing Revenue Bond Funds
June 30, 2012
(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	$ (12,103)	$ 11,995	$ 4,595	$ -	$ 236	$ -	$ 4,723
Investment securities	13,419	34,381	87,420	64,093	3,366	203,475	406,154
Mortgage-backed securities	25,436	-	-	1,687	-	-	27,123
Housing mortgage loans	36,240	-	-	-	2,032	-	38,272
Interfund accounts		(68)	-	-	-	-	(68)
Total Current Assets	62,992	46,308	92,015	65,780	5,634	203,475	476,204
Noncurrent Assets							
Investment securities	-	-	-	92,007	-	-	92,007
Mortgage-backed securities	682,874	-	-	45,282	-	-	728,156
Housing mortgage loans	855,345	-	-	-	30,883	-	886,228
Real estate owned and related receivables	11,469	-	-	-	-	-	11,469
Other noncurrent assets	-	-	1,102	-	-	-	1,102
Total Noncurrent Assets	1,549,688	-	1,102	137,289	30,883	-	1,718,962
Total Assets	1,612,680	46,308	93,117	203,069	36,517	203,475	2,195,166
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated decrease in fair value of derivatives - interest rate swaps	-	-	15,026	-	-	-	15,026
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	362	-	-	-	-	-	362
Accrued interest payable	-	-	37,965	-	-	-	37,965
Revenue bonds - current portion	228,920	-	-	-	-	-	228,920
Total Current Liabilities	229,282	-	37,965	-	-	-	267,247
Noncurrent Liabilities							
Revenue bonds	1,682,499	-	-	-	-	-	1,682,499
Other noncurrent liabilities	1,456	-	-	-	-	-	1,456
Total Noncurrent Liabilities	1,683,955	-	-	-	-	-	1,683,955
Total Liabilities	1,913,237	-	37,965	-	-	-	1,951,202
DEFERRED INFLOWS OF RESOURCES							
Accumulated increase in fair value of derivatives - interest rate swaps	-	-	16,024	-	-	-	16,024
FUND NET POSITION							
Restricted by revenue bond indenture	$ (300,557)	$ 46,308	$ 54,154	$ 203,069	$ 36,517	$ 203,475	$ 242,966

See Independent Auditors' Report.

Kentucky Housing Corporation
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Housing Revenue Bond Funds
Year Ended June 30, 2012
(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	$ 50,965	$ -	$ -	$ -	$ 493	$ -	$ -	$ 51,458
Mortgage-backed securities	36,068	-	-	2,657	-	-	-	38,725
Marketable securities	4	8	5	1,916		7	-	1,940
Net increase in fair value of marketable securities	3,111	-	-	1,158	-	-	-	4,269
Net increase in fair market value of swaps	-	-	498	-	-	-	-	498
Gain on sale of mortgage-backed and marketable securities	14,253	-	-	714	-	-	-	14,967
Other income	991	-	-	-	-	-	-	991
Total Operating Revenues	105,392	8	503	6,445	493	7	-	112,848
Operating Expenses								
Interest on revenue bonds	-	-	82,397	-	-	-	-	82,397
Provision for losses on loans	1,026	-	-	-	-	-	-	1,026
General and administrative	1,456	-	-	-	-	-	-	1,456
Mortgage loan servicers' fees	3,227	-	-	-	124	-	-	3,351
Loan origination costs	1,115	-	-	-	-	-	-	1,115
Debt issuance costs	2,117	-	-	-	-	-	-	2,117
Total Operating Expenses	8,941	-	82,397	-	124	-	-	91,462
Operating Income (Loss)	96,451	8	(81,894)	6,445	369	7	-	21,386
Interfund Transfers	(275,535)	25,364	83,056	-	(2,125)	(7)	162,935	(6,312)
Change in Fund Net Position	(179,084)	25,372	1,162	6,445	(1,756)	-	162,935	15,074
Fund Net Position, Beginning of Year	(121,473)	20,936	52,992	196,624	38,273	-	40,540	227,892
Fund Net Position, End of Year	$(300,557)	$ 46,308	$ 54,154	$ 203,069	$ 36,517	$ -	$ 203,475	$ 242,966

See Independent Auditors' Report.

Kentucky Housing Corporation
Combining Statement of Cash Flows – Housing Revenue Bond Funds
Year Ended June 30, 2012
(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	$ 50,965	-	$ -	$ -	$ 493	$ -	$ -	$ 51,458
Operating expenses	(4,342)	-	-	-	(124)	-	-	(4,466)
Fundings of housing mortgage loans	(59,024)	-	-	-		-	-	(59,024)
Repayments on housing mortgage loans	163,558	-	-	-	4,169	-	-	167,727
Conversion of mortgage loans to mortgage-backed securities	41,344	-	-	-		-	-	41,344
Other, net	(61)	(4)	963	-	(9)	-	-	889
Net Cash Provided By (Used In) Operating Activities	192,440	(4)	963	-	4,529	-	-	197,928
Cash Flows From Noncapital Financing Activities								
Proceeds from issuance of revenue bonds	239,837	-	-	-	-	-	-	239,837
Payments for debt issuance costs	(1,799)	-	-	-	-	-	-	(1,799)
Principal payments on revenue bonds	-	-	(427,890)	-	-	-	-	(427,890)
Interest payments on revenue bonds	-	-	(90,934)	-	-	-	-	(90,934)
Interfund transfers - loan collections and investment income	(344,149)	232,993	106,976	-	(2,125)	(7)	-	(6,312)
Interfund transfers - purchase of mortgage loans	4,445	(4,445)	-	-	-	-	-	
Interfund transfers - retirement of debt	(363,944)	(203,184)	404,193	-	-	-	162,935	
Net Cash Provided By (Used In) Noncapital Financing Activities	(465,610)	25,364	(7,655)		(2,125)	(7)	162,935	(287,098)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(516,592)	(232,644)	(149,243)	(236,964)	(2,264)	-	(371,305)	(1,509,012)
Conversion of mortgage loans to mortgage-backed securities	(41,344)	-	-	-	-	-	-	(41,344)
Sales of investments and mortgage-backed securities	777,845	211,896	155,708	231,633	33	-	208,370	1,585,485
Gain on the sales of investments and mortgage-backed securities	14,253	-	-	714	-	-	-	14,967
Interest received on investments and mortgage-backed securities	36,981	8	5	4,617	-	7	-	41,618
Net Cash Provided By (Used In) Investing Activities	271,143	(20,740)	6,470		(2,231)	7	(162,935)	91,714
Net Increase (Decrease) in Cash and Cash Equivalents	(2,027)	4,620	(222)	-	173	-	-	2,544
Cash and Cash Equivalents, Beginning of Year	(10,076)	7,375	4,817	-	63	-	-	2,179
Cash and Cash Equivalents, End of Year	$ (12,103)	$ 11,995	$ 4,595	$ -	$ 236	$ -	$ -	$ 4,723

See Independent Auditors' Report.

Kentucky Housing Corporation
Combining Statement of Cash Flows – Housing Revenue Bond Funds--Continued
Year Ended June 30, 2012
(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)	$ 96,451	$ 8	$ (81,894)	$ 6,445	$ 369	$ 7	$ -	$ 21,386
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities								
Provision for losses on loans	1,026	-	-	-	-	-	-	1,026
General and administrative	1,456	-	-	-	-	-	-	1,456
Debt issuance costs	2,117	-	-	-	-	-	-	2,117
Interest expense on revenue bonds	-	-	82,397	-	-	-	-	82,397
Interest income on mortgage-backed securities	(36,068)	-	-	(2,657)	-	-	-	(38,725)
Interest income on marketable securities	(4)	(8)	(5)	(1,916)	-	(7)	-	(1,940)
Net increase (decrease) in fair value of marketable securities	(3,111)	-	-	(1,158)	-	-	-	(4,269)
Net increase in fair value of swaps	-	-	(498)	-	-	-	-	(498)
Gain on sale of mortgage-backed and marketable securities	(14,253)	-	-	(714)	-	-	-	(14,967)
Other income	(991)	-	-	-	-	-	-	(991)
Changes in operating assets and liabilities								
Fundings of housing mortgage loans	(59,024)	-	-	-	-	-	-	(59,024)
Repayments on housing mortgage loans	163,558	-	-	-	4,169	-	-	167,727
Conversion of mortgage loans to mortgage-backed securities	41,344	-	-	-	-	-	-	41,344
Other, net	(61)	(4)	963	-	(9)	-	-	889
Net Cash Provided By (Used In) Operating Activities	$ 192,440	$ (4)	$ 963	$ -	$ 4,529	$ -	$ -	$ 197,928

See Independent Auditor's Report.

Report of Independent Auditors 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.

Crowe Horwath LLP
Independent Member Crowe Horwath International

Report of Independent Auditors 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 the financial statements the Kentucky Housing Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Corporation in a separate letter dated October 4, 2012.

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

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 4, 2012