

KENTUCKY HOUSING CORPORATION

**FINANCIAL STATEMENTS
JUNE 30, 2016**

KENTUCKY HOUSING CORPORATION

FINANCIAL STATEMENTS

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Kentucky Housing Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Corporation, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash

(Continued)

flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on page 3 through 13, the schedule of Corporation's proportionate share of the net pension liability and the schedule of Corporation's employer contributions on pages 48 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

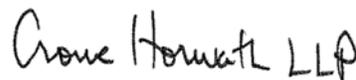
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The combining financial statements on page 50 through 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.


Crowe Horwath LLP

Louisville, Kentucky
September 30, 2016

KENTUCKY HOUSING CORPORATION
Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015

Management's discussion and analysis of Kentucky Housing Corporation's ("Corporation") financial performance provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Company-wide net position increased \$22.2 million during fiscal 2016 to \$281.2 million, with \$7.8 million of the increase coming from governmental activities and \$14.4 million from business-type activities.
- The Corporation's single family loan servicing portfolio increased \$134.7 million during the fiscal year. Loans serviced for others totaled \$1.091 billion at June 30, 2016 and now represents 60% of total single family servicing. Conversely, the Corporations' debt management activities combined with the current business model of selling nearly all single family originations into the secondary market has caused the loan portfolio, including loans backing mortgage-backed securities, within the indenture to shrink by \$239.7 million to total \$667.5 million as of June 30, 2016.
- Single family first mortgage loan originations totaled \$363.1 million for the fiscal year, the second highest in the Corporation's history. With low interest rates causing new bond issuance impractical, virtually all of this production was delivered into the secondary market generating record net trading gains of \$7.7 million.
- The Corporation took advantage of continued low interest rates by selling \$140.0 million of mortgage-backed securities in the bond indenture at a premium price of \$157.2 million. Total proceeds from these sales were used to retire bonds. The Corporation retained the servicing on the mortgage-backed securities sold. Low interest rates also allowed the Corporation to successfully issue economic refunding bonds totaling \$72.4 million (2016 Series A). The bonds refunded by this transaction were paid off in July 2016. These transactions will improve future net interest spreads and help maintain net interest margins.
- The Corporation continues to experience pension expense contribution rates significantly higher than in recent years. Notwithstanding that, the Corporation was able to decrease operating expense levels slightly from the prior fiscal year primarily through reductions in compensation expense and bond expenses. The Corporation's liability for its unfunded pension obligation increased \$4.7 million to \$75.2 million as of June 30, 2016.

Overview of the Financial Statements

The financial statements consist of five parts – this management's discussion and analysis, the basic financial statements, the notes to the financial statements, supplementary pension schedules and supplementary 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.

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

Corporation-Wide Financial Statements – Pages 14 and 15

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

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

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

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

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The Statement of Activities shows the financial performance of each significant governmental and business-type activity operated by the Corporation over the past year. The revenues and expenses associated with each activity are shown as well as a net amount showing whether revenues exceeded expenses. The net revenue of all governmental activities (after transfers) results in an increase (decrease) in the fund net position that is to be expended for program purposes. The net revenue of all business-type activities results in an increase in the Fund Net Position of the Corporation. The Corporation's overall net position increased by \$22.2 million for the year ended June 30, 2016. 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	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 43.7	\$ 40.3	\$ 269.1	\$ 201.6	\$ 312.8	\$ 241.9
Non-current assets	-	-	942.4	1,185.1	942.4	1,185.1
Total Assets	<u>43.7</u>	<u>40.3</u>	<u>1,211.5</u>	<u>1,386.7</u>	<u>1,255.2</u>	<u>1,427.0</u>
Total Deferred Outflows of Resources	<u>(.6)</u>	<u>1.2</u>	<u>8.4</u>	<u>5.4</u>	<u>7.8</u>	<u>6.6</u>
Current liabilities	18.3	22.4	214.3	149.8	232.6	172.2
Non-current liabilities	20.9	23.3	726.0	978.2	746.9	1,001.5
Total Liabilities	<u>39.2</u>	<u>45.7</u>	<u>940.3</u>	<u>1,128.0</u>	<u>979.5</u>	<u>1,173.7</u>
Total Deferred Inflows of Resources	<u>.6</u>	<u>.3</u>	<u>1.7</u>	<u>.6</u>	<u>2.3</u>	<u>.9</u>
Net Position:						
Invested in capital assets	-	-	3.4	3.7	3.4	3.7
Restricted	25.4	17.9	234.4	238.8	259.8	256.7
Unrestricted	<u>(22.1)</u>	<u>(22.4)</u>	<u>40.1</u>	<u>21.0</u>	<u>18.0</u>	<u>(1.4)</u>
Net Position	<u>\$ 3.3</u>	<u>\$ (4.5)</u>	<u>\$ 277.9</u>	<u>\$ 263.5</u>	<u>\$ 281.2</u>	<u>\$ 259.0</u>

The net position of the governmental activities increased from (\$4.5 million) to \$3.3 million. All assets of the Corporation's governmental activities are externally restricted for program purposes. Total assets subject to immediate disbursement are reflected as current liabilities and remaining assets are reflected as restricted net position. The increase in net position indicates that revenues received from governmental activities exceeded program grants, operating expenditures and transfers. The unrestricted net position of (\$22.1 million) represents claims against program administrative revenues not yet received, and impact of the proportionate share of the net pension liability.

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The net position of the Corporation's business-type activities increased from \$263.5 million to \$277.9 million as a result of total revenues of \$77.0 million, total program expenses of \$65.3 million, and transfers in from government operations of \$2.7 million, for a net increase in net position of business-type activities of \$14.4 million. Comparisons in the changes in net position between fiscal years 2016 and 2015 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	
	2016	2015	2016	2015	2016	2015
Revenues						
Operating revenues	\$ 11.7	\$ 11.2	\$ 77.0	\$ 82.5	\$ 88.7	\$ 93.7
Operating grants	222.0	208.6	-	-	222.0	208.6
Total Revenues	233.7	219.8	77.0	82.5	310.7	302.3
Program Expenses						
Rental subsidy administration	155.4	153.9	-	-	155.4	153.9
Weatherization program	3.9	3.7	-	-	3.9	3.7
HOME program	12.0	13.6	-	-	12.0	13.6
Hardest Hit Fund program	31.2	26.3	-	-	31.2	26.3
Other federal and state programs	20.7	24.3	-	-	20.7	24.3
Administrative	-	-	11.2	12.6	11.2	12.6
Bond financed loan programs	-	-	35.2	45.1	35.2	45.1
Loan servicing	-	-	6.1	5.9	6.1	5.9
Other loan and housing credit programs	-	-	12.8	8.9	12.8	8.9
Total Program Expenses	223.2	221.8	65.3	72.5	288.5	294.3
Excess before transfers	10.5	(2.0)	11.7	10.0	22.2	8.0
Interfund transfers in (out)	(2.7)	(2.5)	2.7	2.5	-	-
Increase (Decrease) in Net Position	\$ 7.8	\$ (4.5)	\$ 14.4	\$ 12.5	\$ 22.2	\$ 8.0

Total revenues for governmental activities were \$233.7 million during fiscal year 2016, a \$13.9 million increase from the \$219.8 million in revenues in fiscal year 2015. The increase was due to a \$13.4 million increase in operating grants and a \$.5 million increase in charges for services. Fiscal year 2016 operating grants include federal funding for Rental Assistance (\$151.1 million), HOME (\$11.2 million), Hardest Hit Fund (\$37.5 million) and Weatherization (\$3.3 million), which represent 91% of total operating grant revenues.

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The Corporation receives fees or charges for services for federal program administration. These revenues increased from \$11.2 million in 2015 to \$11.7 million during fiscal year 2016. 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 2016, \$11.7 million in fee revenue was received and \$9.0 million in operating expenses were incurred thereby enabling a \$2.7 million transfer, a \$.2 million increase over the \$2.5 million transferred in 2015.

Program expenses for governmental activities increased during 2015 by \$1.4 million. Program expenses for governmental activities during 2016 were \$223.2 million, comprised of grants of \$214.4 million and operating expenses of \$8.8 million, as discussed above. In fiscal 2015, total program expenses were \$221.8 million with grants of \$212.5 million and operating expenses of \$9.3 million.

Total revenues for business-type activities were \$77.0 million during fiscal year 2016, a \$5.5 million decrease from the \$82.5 million of revenues in fiscal year 2015. For fiscal 2016, gains on the sale of loans held for sale increased \$5.2 million, interest earnings from loans, mortgage-backed securities and other investments decreased \$11.6 million, other income increased \$.9 million and the change in fair value of securities was the same as 2015.

Program expenses for business-type activities decreased \$7.2 million from \$72.5 million in 2015 to \$65.3 million in 2016. Bond financed loan program expenses decreased by \$9.9 million, administrative expenses, or expenses not directly attributable to programs, decreased by \$1.4 million, loan servicing expenses increased by \$.2 million and other loan program expenses increased by \$3.9 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 \$11.7 million in 2016 compared to a \$10.0 million excess of expenses over revenues in 2015, an increase of \$1.7 million from 2015. As described above and in additional detail under "Proprietary Funds," the increase is due to a \$5.5 million decrease in revenues and a \$7.2 million decrease in expenses. Transfers-in were \$2.7 million in 2016, a \$.2 million increase from 2015. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities net position of \$14.4 million.

Fund Financial Statements

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

Governmental Funds – Pages 16 through 19

Each of the columns presented in the governmental funds financial statements represents an independent program operated by the Corporation. A description of each program can be found under Note A of the "Notes to 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, 2016, the Corporation retained \$43.7 million of total assets for program purposes and had \$18.3 million reflected as program liabilities resulting in a total of \$25.4 million reflected as restricted fund balances for program purposes.

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During fiscal year 2016, the Affordable Housing Trust Fund had revenues greater than expended funds of \$.9 million, thereby increasing the program's fund net position. Rental Assistance revenues of \$155.6 million were expended for programs and \$2.7 million was transferred to the proprietary funds. Similarly, all HOME program revenues, \$12.0 million, were expensed in an equal amount in 2016, as were Weatherization revenues of \$3.9 million. Revenues of the Hardest Hit Fund program exceeded expenses by \$8.5 million, thereby increasing the fund net position of the Hardest Hit Fund. Finally, Other Housing Funds expenses exceeded revenues by \$1.8 million, thereby decreasing the fund net position of Other Housing Funds.

Proprietary Funds – Pages 20 through 24

A significant portion of the Corporation's financial resources and activities is reported in the proprietary fund financial statements. Proprietary funds account for approximately 97% of corporate assets, 87% of non-grant revenues, 88% of operating expenses and 100% of the Corporation's unrestricted net position.

Proprietary funds are organized in accordance with the restrictions described under Note B of the "Notes to Financial Statements." The discussion and analysis of proprietary funds will focus on the combined totals of the three separate funds. Primary attention, however, will be given to the financial condition and performance of the Housing Revenue Bond Funds which comprise 82% of the total assets, 56% of total revenues, and 82% of the fund net position of proprietary fund combined totals.

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

Historically, the Corporation has issued mortgage revenue bonds to fund qualifying residential single-family and multi-family mortgage loans. The federal tax code, with certain exceptions, limits the allowable spread between the Corporation's cost of funds and the interest rate charged to borrowers to 1.125%. This spread allows the Corporation to cover operating costs, including servicing costs, of the Housing Finance Program.

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

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

KENTUCKY HOUSING CORPORATION
Management's Discussion and Analysis (Unaudited)
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Condensed financial information from the Statement of Net Position follows in Table 3.

Proprietary Funds			
Statement of Net Position			
(in millions)			
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Program-Purpose Assets:			
Mortgage loans and real estate owned	\$ 643.7	\$ 705.1	\$ (61.4)
Mortgage-backed securities	160.9	362.6	(201.7)
Housing construction loans	1.5	8.8	(7.3)
Other loans	7.8	8.7	(0.9)
Total Program-Purpose Assets	<u>813.9</u>	<u>1,085.2</u>	<u>(271.3)</u>
Cash and Investments	357.0	271.3	85.7
Loans held for sale	26.9	16.8	10.1
Other assets	13.7	13.4	0.3
Total Assets	<u>1,211.5</u>	<u>1,386.7</u>	<u>(175.2)</u>
Total Deferred Outflows of Resources	<u>8.4</u>	<u>5.4</u>	<u>3.0</u>
Bonds payable	750.1	947.4	(197.3)
Other liabilities	190.2	180.6	9.6
Total Liabilities	<u>940.3</u>	<u>1,128.0</u>	<u>(187.7)</u>
Total Deferred Inflows of Resources	<u>1.7</u>	<u>0.6</u>	<u>1.1</u>
Fund Net Position	<u>\$ 277.9</u>	<u>\$ 263.5</u>	<u>\$ 14.4</u>

Mortgage loans, mortgage-backed securities, housing construction loans and other loans decreased by \$271.3 million or 25% during 2016. Total program-purpose assets at June 30, 2016 were \$813.9 million. The decrease was the result of program loan fundings of \$52.6 million, program loan repayments of \$120.0 million, an allowance for loan loss increase of \$1.7 million, an accrued program loan interest decrease of \$.5 million, plus net decreases in mortgage-backed securities, of \$201.7 million, of which \$157.2 million was due to the sale of mortgage-backed securities and the majority of the remaining \$44.5 million decrease was due to principal distributed to holders of the mortgage-backed securities.

Offsetting the decrease in Program Assets reflected in the Statement of Net Position is a net increase of \$366.9 million in loans serviced for others, from \$724.3 million to \$1.091 billion, generated by the Secondary Market Mortgage Purchase program. The loans serviced for others portfolio is not reported in the Statement of Net Position. As discussed above, this portfolio contains net servicing fee rates lower than the net spread experienced on bond program servicing, but such servicing is acquired at a net cash profit, compared to a net cash cost of generating bond program servicing. The increase in loans serviced for others results from origination and subsequent sale into the secondary market of approximately \$333.4 million and acquisitions of \$140.0 million, net of payoffs and loan principal payments totaling approximately \$106.5 million.

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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, 2016, the Debt Service Reserve requirement was \$72.0 million and the amount on deposit was \$162.6 million. (The Housing Revenue Bond Resolution ("Resolution") requires that the amounts on deposit be valued at the lesser of par or fair value and inclusive of any interest or gain realized to the valuation date.) The Corporation has designated approximately \$50 million of the remaining \$90.6 million in excess reserves for purposes of providing self-liquidity for certain of the Corporation's variable rate bonds, thereby saving the cost of paying outside liquidity providers.

During 2016, the Corporation issued short- and long-term bonds and incurred other short-term debt (lines of credit) in the amount of \$268.2 million. This includes Housing Revenue Bonds issued of \$72.4 million and \$195.8 million of line of credit borrowings. Total bond and line-of-credit principal repayments was \$461.6 million and the change in net unamortized bond premium was \$.2 million. As a result of this activity, bonds outstanding decreased \$197.3 million and short-term debt increased by \$4.1 million. The Corporation's Housing Revenue Bond Indenture is rated AAA by Standard & Poor's with a stable outlook and is rated Aaa by Moody's with a stable outlook.

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

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Interest income on loans	\$ 34.8	\$ 38.9	\$ (4.1)
Interest income on mortgage-backed securities	9.1	17.7	(8.6)
Interest income on marketable securities	4.4	3.3	1.1
Increase (decrease) in fair value of securities	(1.8)	(1.8)	-
Gains on sales of loans held for sale	17.8	12.6	5.2
Fees, charges and other income	12.7	11.8	0.9
Total operating revenues	<u>77.0</u>	<u>82.5</u>	<u>(5.5)</u>
Interest expense on revenue bonds and lines of credit	28.0	38.1	(10.1)
Provision for loan losses	2.0	1.1	0.9
General and administrative	22.2	22.5	(0.3)
Loan origination costs	8.9	6.2	2.7
Other expenses	4.2	4.6	(0.4)
Total operating expenses	<u>65.3</u>	<u>72.5</u>	<u>(7.2)</u>
Operating income (loss)	11.7	10.0	1.7
Interfund transfers in	2.7	2.5	0.2
Changes in Fund Net Position	<u>\$ 14.4</u>	<u>\$ 12.5</u>	<u>\$ 1.9</u>

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June 30, 2016 and 2015

Net position increased by \$14.4 million in 2016, compared to a \$12.5 million increase for 2015. The \$1.9 million increase is attributable to several factors. Net interest income on loans, mortgage-backed securities and marketable securities decreased \$11.6 million, from \$59.9 million in 2015 to \$48.3 million in 2016. Gains on sales of loans held for sale increased \$5.2 million, from \$12.6 million in 2015 to \$17.8 million in 2016. The fair value of investment securities had the same decrease in 2016 of \$1.8 million that it had in 2015. Fees, charges and other income increased \$.9 million, from \$11.8 million in 2015 to \$12.7 million in 2016.

Interest expense on revenue bonds and lines of credit decreased \$10.1 million, from \$38.1 million in 2015 to \$28.0 million in 2016. The provision for loan losses increased \$.9 million, from \$1.1 million in 2015 to \$2.0 million in 2016. General and administrative expenses decreased \$.3 million, from \$22.5 million in 2015 to \$22.2 million in 2016. Loan origination costs increased \$2.7 million, from \$6.2 million in 2015 to \$8.9 million in 2016.

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs, decreased \$.4 million, from \$4.6 million in 2015 to \$4.2 million in 2016. Interfund transfers increased \$.2 million, from \$2.5 million in 2015 to \$2.7 million in 2016.

Finally, changes in fund net position were impacted by interfund transfers of \$2.7 million, a \$.2 million increase from transfers of \$2.5 million in 2015. (See "Governmental Funds" for additional information on interfund transfers.)

Financial Outlook

The Corporation's future financial position and performance is dependent on a number of economic, regulatory and financial conditions along with management's consideration of, and response to, those conditions. The Corporation's governmental activities are made possible through intergovernmental revenues made available from the federal government and the Commonwealth of Kentucky. The Corporation's ability to expand or continue these programs is subject to the statutory authority and the budget appropriations of those governments. Management is committed to take those actions necessary to adapt to the ongoing overall reductions in funding of housing programs at the federal level. The continued decrease in available funds has required, and will continue to require, changes in the way the Corporation delivers safe, affordable housing to Kentucky's citizens in need.

The single most immediate financial issue facing the Corporation remains the funding status of and resultant future contributions to the Kentucky Employees Retirement System ("KERS"), a multi-employer defined benefit pension plan, of which the Corporation is a participating employer. The high contribution levels recorded in fiscal 2015 and 2016 are expected to continue for the foreseeable future and possibly increase, diverting resources otherwise available for the Corporation's mission critical activities. In addition, the Corporation will be required to record unfunded liabilities (the amounts of which are presently unknown) related to other non-pension post-retirement benefits beginning in fiscal 2018. Management is committed, despite the magnitude of the obligations yet to be funded, to generating sufficient resources to fund the obligations and continue the Corporation's important role in providing affordable housing. Additional information regarding the Corporation's pension and other post-retirement benefits can be found in Notes B, K and L in the "Notes to Financial Statements."

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

KENTUCKY HOUSING CORPORATION
Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015

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

As discussed above, with the Secondary Market Mortgage Purchase program remaining the singular source of funding for single family loan production (due primarily to prevailing market interest rates), the bond indenture portfolio continues to shrink. Although over the past few years the Corporation has successfully increased interest spreads in the indenture, the decrease in the size of the portfolio is resulting in decreases in net interest income. This scenario does not necessarily weaken the relative strength of the indenture portfolio, nor does it suggest that the Housing Finance Program will become unsustainable. Corporation management, as it has in the past, will continue to take advantage of bond refunding and other interest rate management techniques to maximize net interest income from the indenture portfolio.

The Corporation is continually monitoring prevailing interest rates. Uncertainty in both the domestic and global economies and political events can have marked impacts on the Corporation's operations and competitive environment. During 2016 the Corporation eliminated its interest rate swap positions while at the same time reducing the amount of outstanding variable rate bonds to just over \$50 million. Should rates spike in the short term, management is prepared to react to minimize any negative effect to the Corporation. Similarly, a rising rate environment may result in a shift from the Corporation's current model of delivering single family loans into the secondary market to a revenue bond funding model as well as possible shifts in volume. With so much of the Corporation's single family loan originations made affordable with down payment assistance, changes in the competitive environment regarding such assistance may also impact volumes and pricing. Management, in concert with the Corporation's financial partners, continually considers strategies to take maximum advantage of market conditions.

The Corporation's management is watching closely the presidential and congressional elections, as well as ongoing discussions concerning the future of Fannie Mae and Freddie Mac. Significant developments could create substantial shifts in national housing policies and finance initiatives, necessitating adjustments in the Corporation's delivery of safe affordable housing. Similarly, management is monitoring other possible legislative or regulatory changes that may impact the Corporation's ability to fulfill its mission to the citizens of the Commonwealth and will be working with its national trade group and others to both mitigate negative impacts and support positive impacts of such changes.

Though overall the economy of Kentucky continues to improve, elevated unemployment and stubborn economic conditions in selected geographic regions subject the Corporation's balance sheet to certain amounts of stress. The Corporation's historic concentration on government insured/guaranteed and conventional insured mortgage loan production, coupled with conservative investment requirements, limit the Corporation's exposure to default risk. Most of the Corporation's investment in Fannie Mae servicing is with recourse to Fannie Mae and there is minimal underlying default risk associated with loans backing the Corporation's GNMA mortgage-backed securities investments and servicing. Additional information on the Corporation's mortgage-backed securities investment, allowance for loan losses and loan servicing can be found in Notes C, D, E and F in the "Notes to Financial Statements."

KENTUCKY HOUSING CORPORATION
Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015

Consistent with its mission, the Corporation continues to serve Kentuckians seeking safe affordable housing options, whether those options are single family home financing opportunities, rental assistance, multi-family housing initiatives or finding safe shelter/housing for Kentucky's special needs citizens. The Corporation has served the Commonwealth for over 40 years through numerous economic cycles and will be here for years to come; this long term commitment is how the Corporation maintains 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, 2016. Questions and inquiries may be directed to James F. Statler, Chief Financial Officer at Kentucky Housing Corporation, 1231 Louisville Road, Frankfort, Kentucky 40601. Telephone: (502) 564-7630, x286, fax: (502) 564-7322, e-mail: jstatler@kyhousing.org.

KENTUCKY HOUSING CORPORATION
CORPORATION-WIDE STATEMENT OF NET POSITION
June 30, 2016
(Dollars in thousands)

	Governmental Activities	Business- Type Activities	Combined Totals
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 19,718	\$ 73,992	\$ 93,710
Investment securities	22,235	126,971	149,206
Mortgage-backed securities	-	5,853	5,853
Housing mortgage loans held for sale	-	26,869	26,869
Housing mortgage loans	-	26,586	26,586
Housing construction loans	-	1,494	1,494
Other loans	-	671	671
Accounts receivable and other assets	2,384	6,113	8,497
Interfund accounts	(570)	570	-
Total Current Assets	43,767	269,119	312,886
Noncurrent Assets			
Investment securities	-	156,109	156,109
Mortgage-backed securities	-	155,011	155,011
Housing mortgage loans	-	615,522	615,522
Other loans	-	7,091	7,091
Real estate owned and related receivables	-	1,593	1,593
Capital assets	-	3,438	3,438
Other noncurrent assets	-	3,631	3,631
Total Noncurrent Assets	-	942,395	942,395
Total Assets	43,767	1,211,514	1,255,281
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	(610)	8,349	7,739
Total Deferred Outflows of Resources	(610)	8,349	7,739
LIABILITIES			
Current Liabilities			
Lines of credit	-	47,018	47,018
Accounts payable and other liabilities	18,308	1,723	20,031
Accrued interest payable	-	10,611	10,611
Escrows and project reserves	-	62,680	62,680
Revenue bonds, due within one year	-	92,325	92,325
Total Current Liabilities	18,308	214,357	232,665
Noncurrent Liabilities			
Revenue bonds, due after one year	-	657,757	657,757
Other noncurrent liabilities	-	13,954	13,954
Net pension liability	20,923	54,259	75,182
Total Noncurrent Liabilities	20,923	725,970	746,893
Total Liabilities	39,231	940,327	979,558
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	640	1,661	2,301
NET POSITION			
Net investment in capital assets	-	3,438	3,438
Restricted by			
Revenue bond indenture	-	226,495	226,495
Enabling legislation	-	7,847	7,847
Program requirements	25,459	-	25,459
Unrestricted	(22,173)	40,095	17,922
Net Position	\$ 3,286	\$ 277,875	\$ 281,161

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
CORPORATION-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016
(Dollars in thousands)

Functions/Activities	Direct Expenses		Program Revenues		Net (Expense) Revenues and Changes in Net Position		
	Grants	Operating	Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Rental assistance	\$ 151,053	\$ 4,351	\$ 7,179	\$ 151,053	\$ 2,828	\$ -	\$ 2,828
HOME program	11,154	798	825	11,154	27	-	27
Weatherization	3,320	577	598	3,320	21	-	21
Hardest Hit Fund program	29,012	2,164	2,191	37,492	8,507	-	8,507
Other federal and state housing programs	19,872	893	924	18,950	(891)	-	(891)
Total Governmental Activities	<u>214,411</u>	<u>8,783</u>	<u>11,717</u>	<u>221,969</u>	<u>10,492</u>	<u>-</u>	<u>10,492</u>
Business-Type Activities							
Administrative	1,214	9,950	551	-	-	(10,613)	(10,613)
Bond financed loan programs	-	35,212	43,098	-	-	7,886	7,886
Loan servicing	-	6,148	9,029	-	-	2,881	2,881
Other loan and housing credit programs	-	12,755	24,305	-	-	11,550	11,550
Total Business-Type Activities	<u>1,214</u>	<u>64,065</u>	<u>76,983</u>	<u>-</u>	<u>-</u>	<u>11,704</u>	<u>11,704</u>
Total Activities	<u>\$ 215,625</u>	<u>\$ 72,848</u>	<u>\$ 88,700</u>	<u>\$ 221,969</u>	<u>10,492</u>	<u>11,704</u>	<u>22,196</u>
Transfers					(2,665)	2,665	-
Change in Net Position					7,827	14,369	22,196
Net Position, Beginning of Year					(4,541)	263,506	258,965
Net Position, End of Year					<u>\$ 3,286</u>	<u>\$ 277,875</u>	<u>\$ 281,161</u>

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2016
(Dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Treasury Housing Credit	Weatherization Assistance	Rental Assistance	Hardest Hit Fund	Other Housing Funds	Combined Totals
ASSETS								
Current Assets								
Cash and cash equivalents	\$ 2,124	\$ 12,102	\$ -	\$ -	\$ 447	\$ 114	\$ 4,931	\$ 19,718
Investment securities	7,382	-	-	-	-	13,516	1,337	22,235
Accounts receivable and other assets	-	516	-	266	-	-	1,602	2,384
Interfund accounts	-	(81)	-	(108)	(211)	-	(170)	(570)
Total Current Assets	<u>9,506</u>	<u>12,537</u>	<u>-</u>	<u>158</u>	<u>236</u>	<u>13,630</u>	<u>7,700</u>	<u>43,767</u>
Noncurrent Assets								
Program loans	15,634	100,328	48,781	-	-	112,925	2,154	279,822
Less loan loss provision	(15,634)	(100,328)	(48,781)	-	-	(112,925)	(2,154)	(279,822)
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 9,506</u>	<u>\$ 12,537</u>	<u>\$ -</u>	<u>\$ 158</u>	<u>\$ 236</u>	<u>\$ 13,630</u>	<u>\$ 7,700</u>	<u>\$ 43,767</u>
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	\$ -	\$ 12,537	\$ -	\$ 158	\$ 236	\$ 2,624	\$ 2,753	\$ 18,308
FUND BALANCE								
Restricted by program requirements	<u>9,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,006</u>	<u>4,947</u>	<u>25,459</u>
Total Liabilities and Fund Balance	<u>\$ 9,506</u>	<u>\$ 12,537</u>	<u>\$ -</u>	<u>\$ 158</u>	<u>\$ 236</u>	<u>\$ 13,630</u>	<u>\$ 7,700</u>	<u>\$ 43,767</u>

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE CORPORATION-WIDE STATEMENT OF NET POSITION
June 30, 2016
(Dollars in thousands)

Fund balances - total governmental funds	\$	25,459
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Amounts reported for governmental activities in the State of
Net Position are different because of the measurement attributable to:

Some liabilities, including net pension liability, are not
due and payable in the current period and, therefore, are
not reported in the individual governmental funds:

Net pension liability		(20,923)
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Deferred outflows and inflows or resources related to
pensions are applicable to future periods and, therefore,
are not reported in the individual governmental funds:

Deferred outflows of resources related to pensions of \$1,046 represents deferred outflow of 2016 employer contributions related to pensions		1,046
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Other deferred outflows of resources related to pensions		(1,656)
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Deferred inflows of resources related to pensions		(640)
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Net position of governmental activities	\$	<u>3,286</u>
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KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION – GOVERNMENTAL FUNDS
Year Ended June 30, 2016
(Dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Weatherization Assistance	Rental Assistance	Hardest Hit Fund	Other Housing Funds	Combined Totals
Revenues							
Federal and state administrative fees	\$ -	\$ 825	\$ 598	\$ 7,179	\$ 2,191	\$ 924	\$ 11,717
Pass-through grant revenues	4,919	11,154	3,320	151,053	37,492	14,031	221,969
Total Revenues	<u>4,919</u>	<u>11,979</u>	<u>3,918</u>	<u>158,232</u>	<u>39,683</u>	<u>14,955</u>	<u>233,686</u>
Expenditures							
General and administrative	-	825	598	4,514	2,191	924	9,052
Pass-through grant expenditures	4,008	11,154	3,320	151,053	29,012	15,864	214,411
Total Expenditures	<u>4,008</u>	<u>11,979</u>	<u>3,918</u>	<u>155,567</u>	<u>31,203</u>	<u>16,788</u>	<u>223,463</u>
Revenues in Excess of / (Less Than) Expenditures	911	-	-	2,665	8,480	(1,833)	10,223
Interfund Transfers	-	-	-	(2,665)	-	-	(2,665)
Change in Fund Balance	911	-	-	-	8,480	(1,833)	7,558
Fund Balance, Beginning of Year	<u>8,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,526</u>	<u>6,780</u>	<u>17,901</u>
Fund Balance, End of Year	<u>\$ 9,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,006</u>	<u>\$ 4,947</u>	<u>\$ 25,459</u>

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION – GOVERNMENTAL FUNDS
TO THE CORPORATION-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016
(Dollars in thousands)

Net changes in fund balances - total governmental funds	\$	7,558			
<p>Amounts reported for governmental activities in the Corporation-Wide Statement of Activities are different because of the measurement focus attributable to:</p> <p>Governmental funds report pension contributions as expenditures using the current financial resources measurement focus. However, in the Corporation-Wide Statement of Activities, the cost of pension benefits earned is reported economic resource measurement focus and the full accrual basis of accounting.</p>					
Corporation pension contributions (deferred outflows)	\$	1,046			
Cost of pension benefits earned		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right; border-bottom: 1px solid black;">(777)</td> <td style="text-align: right; border-bottom: 1px solid black;">269</td> </tr> </table>		(777)	269
	(777)	269			
Change in net position of governmental activities	\$	<u>7,827</u>			

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2016
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 71,277	\$ 2,285	\$ 430	\$ 73,992
Investment securities	3,232	122,524	1,215	126,971
Mortgage-backed securities	-	5,853	-	5,853
Housing mortgage loans held for sale	26,869	-	-	26,869
Housing mortgage loans	4,151	22,435	-	26,586
Housing construction loans	292	-	1,202	1,494
Other loans	671	-	-	671
Accounts receivable and other assets	6,113	-	-	6,113
Interfund accounts	(4,498)	68	5,000	570
Total Current Assets	<u>108,107</u>	<u>153,165</u>	<u>7,847</u>	<u>269,119</u>
Noncurrent Assets				
Investment securities	-	156,109	-	156,109
Mortgage-backed securities	-	155,011	-	155,011
Housing mortgage loans	82,202	533,320	-	615,522
Other loans	7,091	-	-	7,091
Real estate owned and related receivables	-	1,593	-	1,593
Capital assets	3,438	-	-	3,438
Other noncurrent assets	3,631	-	-	3,631
Total Noncurrent Assets	<u>96,362</u>	<u>846,033</u>	<u>-</u>	<u>942,395</u>
Total Assets	<u>204,469</u>	<u>999,198</u>	<u>7,847</u>	<u>1,211,514</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	7,059	1,290	-	8,349
Total Deferred Outflows of Resources	<u>7,059</u>	<u>1,290</u>	<u>-</u>	<u>8,349</u>

(Continued)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2016
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
LIABILITIES				
Current Liabilities				
Lines of credit	\$ 47,018	\$ -	\$ -	\$ 47,018
Accounts payable and other liabilities	1,454	269	-	1,723
Accrued interest payable	-	10,611	-	10,611
Escrows and project reserves	62,680	-	-	62,680
Revenue bonds - current portion	-	92,325	-	92,325
Total Current Liabilities	<u>111,152</u>	<u>103,205</u>	<u>-</u>	<u>214,357</u>
Noncurrent Liabilities				
Revenue bonds	-	657,757	-	657,757
Other noncurrent liabilities	13,840	114	-	13,954
Net pension liability	41,726	12,533	-	54,259
Total Noncurrent Liabilities	<u>55,566</u>	<u>670,404</u>	<u>-</u>	<u>725,970</u>
Total Liabilities	<u>166,718</u>	<u>773,609</u>	<u>-</u>	<u>940,327</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	1,277	384	-	1,661
NET POSITION				
Invested in capital assets	3,438	-	-	3,438
Restricted by				
Revenue bond indenture	-	226,495	-	226,495
Enabling legislation	-	-	7,847	7,847
Unrestricted	40,095	-	-	40,095
Net Position	<u>\$ 43,533</u>	<u>\$ 226,495</u>	<u>\$ 7,847</u>	<u>\$ 277,875</u>

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2016
(Dollars in thousands)

	<u>General Funds</u>	<u>Housing Revenue Bond Funds</u>	<u>Housing Development Fund</u>	<u>Combined Totals</u>
Operating Revenues				
Interest and fee income				
Housing mortgage and construction loans	\$ 4,153	\$ 30,535	\$ 96	\$ 34,784
Mortgage-backed securities	4	9,038	-	9,042
Marketable securities	3	4,396	1	4,400
Net (decrease) in fair value of securities	(8)	(1,763)	-	(1,771)
Gains on sales of loans held for sale	17,811	-	-	17,811
Fees, charges and other income	12,051	666	-	12,717
Total Operating Revenues	<u>34,014</u>	<u>42,872</u>	<u>97</u>	<u>76,983</u>
Operating Expenses				
Interest on revenue bonds and lines of credit	421	27,574	-	27,995
Provision for losses on loans	1,584	388	9	1,981
General and administrative	22,566	(347)	-	22,219
Housing assistance grants	1,214	-	-	1,214
Mortgage loan servicers' fees	20	2,101	-	2,121
Loan origination costs	8,778	77	-	8,855
Debt issuance costs	-	894	-	894
Total Operating Expenses	<u>34,583</u>	<u>30,687</u>	<u>9</u>	<u>65,279</u>
Operating Income (Loss)	(569)	12,185	88	11,704
Interfund Transfers	<u>8,100</u>	<u>(5,435)</u>	<u>-</u>	<u>2,665</u>
Change in Net Position	7,531	6,750	88	14,369
Net Position, Beginning of Year	<u>36,002</u>	<u>219,745</u>	<u>7,759</u>	<u>263,506</u>
Net Position, End of Year	<u>\$ 43,533</u>	<u>\$ 226,495</u>	<u>\$ 7,847</u>	<u>\$ 277,875</u>

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2016
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	\$ 4,153	\$ 30,535	\$ 104	\$ 34,792
Gain on sales of loans held for sale	16,017	-	-	16,017
Fees, charges and other income	12,652	-	-	12,652
Personnel costs	(15,894)	-	-	(15,894)
Operating expenses	(12,091)	(1,831)	-	(13,922)
Housing assistance grants	(1,214)	-	-	(1,214)
Fundings of housing mortgage loans	(384,860)	(15,430)	-	(400,290)
Repayments on housing mortgage loans	35,378	80,631	-	116,009
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	333,366	-	-	333,366
Net changes in housing construction loans	2,500	-	4,775	7,275
Other, net	6,521	(11)	(5,000)	1,510
Net Cash Provided By (Used In) Operating Activities	<u>(3,472)</u>	<u>93,894</u>	<u>(121)</u>	<u>90,301</u>
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit and issuance of revenue bonds	195,846	73,437	-	269,283
Payments for debt issuance costs	-	(685)	-	(685)
Principal payments on revenue bonds and line of credit	(191,659)	(269,920)	-	(461,579)
Interest payments on lines of credit and revenue bonds	(421)	(34,214)	-	(34,635)
Changes in escrows and project reserves	5,888	-	-	5,888
Interfund transfers	7,756	(5,091)	-	2,665
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>17,410</u>	<u>(236,473)</u>	<u>-</u>	<u>(219,063)</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(98)	-	-	(98)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(564,521)	(1,086,726)	(210)	(1,651,457)
Sales of investments and mortgage-backed securities	563,317	1,198,225	710	1,762,252
Gain on sales of investments and mortgage-backed securities	-	17,105	-	17,105
Interest received on investments and mortgage-backed securities	6	13,441	-	13,447
Net Cash Provided By (Used In) Investing Activities	<u>(1,198)</u>	<u>142,045</u>	<u>500</u>	<u>141,347</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,642	(534)	379	12,487
Cash and Cash Equivalents, Beginning of Year	<u>58,635</u>	<u>2,819</u>	<u>51</u>	<u>61,505</u>
Cash and Cash Equivalents, End of Year	<u>\$ 71,277</u>	<u>\$ 2,285</u>	<u>\$ 430</u>	<u>\$ 73,992</u>

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2016
(Dollars in thousands)

	<u>General Funds</u>	<u>Housing Revenue Bond Funds</u>	<u>Housing Development Fund</u>	<u>Combined Totals</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	\$ (569)	\$ 12,185	\$ 88	\$ 11,704
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(1,794)	-	-	(1,794)
Provision for losses on loans	1,584	388	9	1,981
Debt issuance costs	-	894	-	894
Amortization of intangible asset	648	-	-	648
Depreciation expense	394	-	-	394
Interest expense on lines of credit and revenue bonds	421	27,574	-	27,995
Interest income on mortgage-backed securities	(4)	(9,038)	-	(9,042)
Interest income on marketable securities	(3)	(4,396)	-	(4,399)
Net decrease in fair value of marketable securities	-	1,763	-	1,763
Other income	-	(666)	-	(666)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(384,860)	(15,430)	-	(400,290)
Repayments on housing mortgage loans	35,378	80,631	-	116,009
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	333,366	-	-	333,366
Housing construction loans	2,500	-	4,775	7,275
Other, net	9,467	(11)	(4,992)	4,464
Net Cash Provided By (Used In) Operating Activities	<u>\$ (3,472)</u>	<u>\$ 93,894</u>	<u>\$ (120)</u>	<u>\$ 90,302</u>

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

Note A--Compliance with Enabling Legislation and Bond Resolutions

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

The Corporation primarily makes first mortgage loans to finance single-family and multi-family housing units within Kentucky. Loans are made primarily to first-time home buyers meeting certain low-to-moderate income guidelines. Substantially all assets are held by banks as trustees and are pledged as collateral for the Corporation's bonds. The Corporation also administers various programs for federal and state agencies. Funds held for these programs are restricted as to use by statutes, contracts or other agreements.

Note B--Summary of Significant Accounting Policies

Basis of Presentation: The Corporation's financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and related statements, and are comprised of three components: 1) Corporation-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Corporation-wide financial statements are comprised of a statement of net position and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements reflect all of the assets, liabilities, revenues, expenses, deferred inflows, deferred outflows, gains and losses of governmental and business-type activities. The governmental activities reflect the administration of the various programs for the Commonwealth and the federal government. The business-type activities include single and multi-family loan programs and other lender services. The Corporation follows GASB pronouncements as codified under GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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

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

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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

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

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

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

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

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

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.

Hardest Hit Fund: This fund accounts for resources made available from the U.S. Treasury to assist Kentucky homeowners. The Unemployment Bridge Program assists Kentucky homeowners who have lost their jobs or suffered a reduction in income due to the recent economic downturn to keep their homes. The Hardest Hit Fund Down Payment Assistant Program provides down payment assistance to qualified borrowers to purchase a primary residence in targeted counties in Kentucky. Under both of these programs, the proceeds are loaned to eligible homeowners and are secured by a five-year forgivable lien on the recipient's home. The program funds are available to all lenders and all borrowers who meet the program criteria. The fund balance of both programs is restricted for use only by these programs and if any fund balance exists at the end of the programs' duration such balance will be returned to the U.S. Treasury.

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

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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

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

General Funds: These funds account for proprietary fund (1) activities related to the development and administration of corporate financial programs, (2) corporate-owned assets and (3) any business-type activities of the Corporation not included in the Housing Revenue Bond indenture or construction loans, including the Secondary Market Mortgage Purchase program. Fund net position is generally unrestricted.

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

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

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

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

Historically, the Corporation securitized a large portion of its government insured housing mortgage loans into mortgage-backed securities through the Government National Mortgage Association ("GNMA"). The Corporation retains ownership of \$160,864 of the securities and retains the servicing rights to the underlying housing mortgage loans.

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

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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

The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, loan guarantees, review of specific problem loans, and current economic conditions that may affect a borrower's ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering the economic climate, business conditions and collection efforts, that a borrower's financial condition is such that collection of interest is doubtful.

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

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

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

Capital Assets: Capital assets are stated at cost less accumulated depreciation and are reported in the business-type activities column in the Corporation-wide statement of net position. Maintenance, repairs, and minor replacements are charged to expense as incurred; major improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in income. Depreciation is computed on the straight-line method over the estimated useful lives of the assets:

Buildings	30 to 40 years
Equipment	3 to 10 years

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

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

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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

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

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

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

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

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

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

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

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

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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

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

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

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and GASB Statements No. 82, *Pension Issues*. Each of these statements created additional reporting requirements within the notes to the financial statements but had no impact to the financial statements. The Corporation also applied GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.
- The Corporation has determined the following accounting standards will have no impact on its financial statements: GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, GASB Statement No. 80, *Blending Requirements for Certain Component Units*, and GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

GASB standards that are under evaluation include:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* is effective for the year ending June 30, 2017 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for the fiscal year ending June 30, 2018. The Corporation has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

(Continued)

**KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS**

June 30, 2016
(Dollars in thousands)

Note C--Cash, Cash Equivalents and Investments

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, 2016, the carrying amount of the Corporation's cash and cash equivalents was \$93,710 and the bank balance was \$88,781. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the \$88,781 bank balance, \$42,118 was covered by federal depository insurance and \$46,663 was collateralized. For the funds collateralized by the financial institutions, the collateral equals or exceeds at least 102 percent (102%) of the value of the uninsured funds on deposit as required by the Corporation's investment policies, and the collateral is held by the financial institutions or a third party in the name of the Corporation.

Cash and cash equivalents of approximately \$85,113 are restricted for government programs, payment of bond principal and interest, payment of principal and interest on mortgage-backed securities and for payment of taxes, insurance and other escrowed items on the Corporation's serviced loans. Of the above amount, \$19,718 is restricted in governmental activities and \$65,395 is restricted in business-type activities. Within the business-type activities, the restricted amounts are almost entirely in the general fund.

Investment and Mortgage-Backed Securities: At June 30, 2016 the Corporation has the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration (in Years)</u>
U.S. Treasuries	\$ 11,707	2.52
U.S. government-sponsored enterprises	144,400	2.82
Mortgage-backed securities	160,864	3.11
Money market funds	149,208	0.00
Total Investment and Mortgage-Backed Securities	466,179	2.01
Less amounts shown as current assets	155,059	
Noncurrent Investment and Mortgage-Backed Securities	\$ 311,120	

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)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(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, 2016:

<u>Investment Type</u>	<u>Moody's Rating</u>
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, 2016 consist of the following:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
GNMA	\$ 160,864	35%
Dreyfus	149,003	32%
U.S. government-sponsored enterprises	144,400	31%

The GNMA investments consist of mortgage-backed securities backed by federally insured or guaranteed single-family mortgage loans originated by the Corporation and then formed into securities, and had a book value of \$148,562 as of June 30, 2016. The performance of the GNMA securities is guaranteed by GNMA, though as servicer of the GNMA pools, the Corporation is exposed to minimal residual risk on the underlying loans in the event, that upon default of a loan, the insurance or guarantee received is insufficient to fully reimburse the Corporation.

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Corporation has the following recurring fair value measurements as of June 30, 2016:

	Fair Value Measurements at June 30, 2016 Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
U.S. Treasuries	\$ 11,707	\$ 11,707	\$ -	\$ -
U.S. government-sponsored enterprises	144,400	-	144,400	-
Mortgage-backed securities	160,864	-	160,864	-
Total investments by fair value level	316,971	\$ 11,707	\$ 305,264	\$ -
Total investments by amortized cost	149,208			
Total investments	\$ 466,179			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Total investments by amortized cost consist of amounts invested in overnight money market funds.

Note D--Housing Mortgage Loans

At June 30, 2016, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	\$ 523,282
Multifamily (B)	32,238
	555,520
Total Housing Revenue Bond Funds	555,520
General Funds (C)	93,307
Total Principal	648,827
Add accrued interest receivable on loans	2,156
Total Principal and Accrued Interest	650,983
Less allowance for loan losses	8,875
Net Housing Mortgage Loans	642,108
Less amount shown as current assets	26,586
Noncurrent Housing Mortgage Loans	\$ 615,522

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

Note D--Housing Mortgage Loans (Continued)

Additional information related to loans includes:

- Note (A) Single-family includes \$501,659 in federally insured or guaranteed loans, \$14,854 of non-insured loans with initial loan-to-value ratios less than 90%, and \$6,769 of loans covered by private mortgage insurance.
- Note (B) Multifamily includes \$27,558 in federally insured or guaranteed loans and \$4,680 in non-insured loans.
- Note (C) General Funds include \$38,258 in federally insured or guaranteed loans and \$55,049 in non-insured loans.

Note E--Other Loan Related Activities

Housing Mortgage Loans Held for Sale: These loans are first mortgage loans pending sale into the secondary market and are secured by single family residences. The fair value of these loans is determined using quoted secondary market prices. This is considered Level 2 in the fair value hierarchy.

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 \$891.

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 \$1,356.

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

Loan Commitments: At June 30, 2016, the Corporation is committed to make single-family mortgage loans and housing construction loans totaling \$72,222 and \$1,497, respectively. The Corporation had \$78,731 in outstanding commitments to sell single-family loans at June 30, 2016.

Note F-- Loan Servicing

In addition to the GNMA mortgage-backed securities portfolios that the Corporation services for its own indenture (See Note C), the Corporation was servicing the following for other investors at June 30, 2016:

<u>Servicing Type</u>	<u>Number of Loans</u>	<u>Amounts</u>
GNMA mortgage-backed securities	7,205	\$ 680,637
Fannie Mae mortgage-backed securities	1,408	97,808
Fannie Mae whole loans	2,538	312,751
	<u>11,151</u>	<u>\$ 1,091,196</u>

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

Note F-- Loan Servicing (Continued)

Included in Fannie Mae mortgage-backed securities totals are loans totaling \$11,985 on which the Corporation has retained full default risk on the underlying loans and additional loans totaling \$18,229 on which the Corporation has retained default risk subject to a stop loss agreement with Fannie Mae. Included in Fannie Mae whole loan amounts are loans totaling \$111,152 for which the Corporation has retained default risk for the twelve months following the origination date.

Servicing rights totaling \$3,631 are amortized in proportion to, and over the period of, estimated servicing income and are included in other noncurrent assets.

Note G--Capital Assets

Major classes of capital assets at June 30, 2016 and activity during the year follows:

<u>Business-Type Activities</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements and Dispositions</u>	<u>Balance June 30, 2016</u>
Land	\$ 1,089	\$ -	\$ -	\$ 1,089
Buildings	5,161	92	-	5,253
Equipment	5,038	6	(462)	4,582
Less accumulated depreciation	(7,554)	(394)	462	(7,486)
Net Capital Assets	\$ 3,734	\$ (296)	\$ -	\$ 3,438

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

Note H--Lines of Credit

The Corporation's lines of credit at June 30, 2016 and activity during the year follows:

<u>Business-Type Activities</u>	<u>Balance July 1, 2015</u>	<u>Borrowings</u>	<u>Repayments and Dispositions</u>	<u>Balance June 30, 2016</u>
Loan Warehousing Line of Credit 1	\$ 39,931	\$ 22,396	\$ 23,809	\$ 38,518
Loan Warehousing Line of Credit 2	2,900	173,450	167,850	8,500
	\$ 42,831	\$ 195,846	\$ 191,659	\$ 47,018

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Dollars in thousands)

Note H--Lines of Credit (Continued)

Loan Warehousing Line of Credit 1 ("Line 1") is unsecured and is used for the purchase of mortgage loans. Borrowings are repaid upon the next issuance of Housing Revenue Bonds or the sale of loans into the secondary market or to other investors. The line provides for borrowings up to \$40,000, bears interest at one-month LIBOR plus 53 basis points and matures June 30, 2017. The rate as of June 30, 2016 was 1.03%. Up to \$30,000 of Line 1 may also be used to purchase certain FHA and RHS loans pending receipt of insurance/guarantee claim payments from the respective agencies.

Loan Warehousing Line of Credit 2 is also unsecured and is used for the purchase of mortgage loans pending issuance of new Housing Revenue Bonds or sale to the secondary market or to other investors. This line provides for borrowings up to \$25,000, bears interest at the daily LIBOR plus 60 basis points and, with its recent renewal, matures August 12, 2017. The rate as of June 30, 2016 was 1.07%.

Note I--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2016 and the activity for the year then ended consist of the following:

	<u>Original Face Amount</u>	<u>Balance July 1, 2015</u>	<u>Issued</u>	<u>Repaid/ Retired</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
Housing Revenue Bonds:						
2005 Series A:						
2017-2018, 4.25% to 4.35%	\$ 18,670	\$ 1,215	\$ -	\$ 1,215	\$ -	\$ -
2005 Series B:						
2017-2033, variable	16,330	4,275	-	4,275	-	-
2005 Series F:						
2017, 4.78%	20,000	330	-	330	-	-
2005 Series I:						
2017, 5.04%	22,940	2,340	-	2,265	75	75
2005 Series L:						
2017-2037, variable	20,000	16,800	-	16,800	-	-
2006 Series C:						
2024-2037, variable	15,425	13,270	-	13,270	-	-
2006 Series D:						
2017, 5.24%	20,000	75	-	75	-	-
2006 Series E:						
2031-2037, 4.75%	27,140	6,030	-	6,030	-	-
2006 Series F:						
2017-2030, variable	20,540	20,540	-	20,540	-	-
2006 Series H:						
2017-2030, 4.65% to 4.95%	41,495	17,650	-	17,650	-	-
2006 Series I:						
2019-2032, variable	23,750	23,750	-	23,750	-	-

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016
(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2015	Issued	Repaid/ Retired	Balance June 30, 2016	Amount Due Within One Year
Housing Revenue Bonds:						
2006 Series K:						
2018-2023, 4.30% to 4.55%	\$ 9,585	\$ 355	\$ -	\$ 355	\$ -	\$ -
2006 Series M:						
2017-2033, variable	21,000	21,000	-	21,000	-	-
2006 Series O:						
2017-2036, variable	29,035	15,520	-	-	15,520	215
2006 Series P:						
2017-2035, 3.95% to 4.60%	8,210	7,890	-	7,890	-	-
2006 Series Q:						
2017-2032, 4.50% to 4.85%	41,790	14,935	-	14,935	-	-
2006 Series T:						
2017-2038, variable	23,300	8,455	-	-	8,455	100
2006 Series U:						
2017-2028, 4.70% to 4.85%	45,000	18,915	-	4,785	14,130	14,130
2006 Series W:						
2017-2038, variable	38,380	12,090	-	-	12,090	160
2007 Series A:						
2017-2038, 4.25% to 4.65%	39,545	27,760	-	5,905	21,855	21,855
2007 Series B:						
2019-2038, 5.58%	38,000	2,025	-	1,685	340	340
2007 Series C:						
2017-2018, 4.40% to 4.80%	50,000	36,180	-	1,230	34,950	34,950
2007 Series D:						
2018-2038, 5.745%	30,000	3,085	-	1,895	1,190	1,190
2007 Series E:						
2017-2038, 4.40% to 4.85%	45,000	34,120	-	2,300	31,820	440
2007 Series G:						
2017-2035, 4.125% to 4.75%	6,285	6,100	-	175	5,925	-
2007 Series H:						
2017-2023, 4.50% to 4.80%	34,965	10,835	-	4,960	5,875	410
2007 Series I:						
2018-2038, 5.77%	16,620	1,045	-	625	420	-
2007 Series J:						
2018-2038, variable	17,130	12,740	-	-	12,740	-
2007 Series K:						
2017-2028, 4.15% to 4.85%	7,405	1,260	-	1,260	-	-
2007 Series L:						
2017-2031, 4.75% to 5.50%	25,485	1,065	-	760	305	5
2007 Series M:						
2019-2037, 6.06%	27,000	2,425	-	1,455	970	-
2007 Series N:						
2017-2023, 4.45% to 4.55%	40,000	5,265	-	3,650	1,615	385

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Dollars in thousands)

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

	<u>Original Face Amount</u>	<u>Balance July 1, 2015</u>	<u>Issued</u>	<u>Repaid/ Retired</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
Housing Revenue Bonds-Continued						
2007 Series O:						
2017-2038, variable	\$ 10,000	\$ 6,220	\$ -	\$ 140	\$ 6,080	\$ 150
2008 Series A:						
2017-2033, 4.20% to 5.25%	39,270	6,755	-	4,780	1,975	245
2008 Series C:						
2017-2018, 3.95% to 3.95%	14,230	4,345	-	4,040	305	150
2008 Series E:						
2017-2024, 4.10% to 4.875%	60,000	11,720	-	4,670	7,050	760
2009 Series B:						
2017-2035, 3.45% to 5.00%	60,000	27,225	-	3,870	23,355	665
2009 Series C, Sub series C-3:						
2028-2042, 3.55%	30,000	22,150	-	2,120	20,030	-
2009 Series C, Sub series C-4:						
2028-2042, 2.52%	30,000	26,440	-	2,620	23,820	-
2010 Series A:						
2017-2027, 2.75% to 5.00%	40,000	16,485	-	4,630	11,855	1,205
2010 Series B:						
2017-2028, 2.65% to 5.00%	40,000	18,995	-	4,490	14,505	1,130
2010 Series C:						
2028-2034, 4.375% to 4.625%	10,000	6,035	-	215	5,820	-
2010 Series D:						
2017-2021, 3.70% to 4.40	46,000	20,585	-	4,375	16,210	1,675
2010 Series E:						
2021-2036, 3.625% to 4.75%	20,000	19,155	-	575	18,580	-
2011 Series A:						
2017-2028, 2.85% to 5.00%	20,000	11,120	-	2,045	9,075	535
2011 Series B:						
2017-2028, 2.00% to 4.25%	20,000	14,265	-	2,390	11,875	605
2012 Series A:						
2017-2034, 1.879% to 4.268%	187,755	139,445	-	18,755	120,690	4,840
2013 Series A:						
2041, 3.00%	52,940	40,810	-	5,570	35,240	-
2013 Series B:						
2041, 3.00%	54,920	44,130	-	5,325	38,805	-
2013 Series C:						
2017-2024, 1.70% to 3.522%	36,470	30,085	-	3,990	26,095	1,780
2013 Series D:						
2024-2033, 3.20% to 4.00%	49,410	32,375	-	4,105	28,270	-
2013 Series E:						
2017-2024, 1.35% to 3.20%	7,590	7,590	-	635	6,955	470

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Dollars in thousands)

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

	<u>Original Face Amount</u>	<u>Balance July 1, 2015</u>	<u>Issued</u>	<u>Repaid/ Retired</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
Housing Revenue Bonds-Continued						
2013 Series F:						
2017, 0.85% to 1.20%	\$ 2,200	\$ 515	\$ -	\$ 515	\$ -	\$ -
2013 Series G:						
2024-2028, 4.00%	4,300	470	-	420	50	-
2014 Series A:						
2017-2034, 0.937% to 4.296%	61,445	58,700	-	5,790	52,910	2,245
2014 Series B:						
2017-2037, 1.131% to 4.097%	30,000	29,335	-	2,790	26,545	520
2016 Series A:						
2017-2040, 0.74% to 3.86%	72,465	-	72,465	-	72,465	1,095
Total Housing Revenue Bonds	<u>\$ 1,839,020</u>	944,290	<u>\$ 72,465</u>	<u>\$ 269,920</u>	746,835	<u>\$ 92,325</u>
Unamortized premium		<u>3,105</u>			<u>3,247</u>	
Net Revenue Bonds		<u>\$ 947,395</u>			<u>\$ 750,082</u>	

As indicated in the above table, bond issues totaling \$54,885 have variable rates of interest. This rate is determined periodically by the bond remarketing agent as the minimum interest rate that would result in the sale of the variable-rate bonds at a price equal to the principal amount plus accrued interest thereon not to exceed a range of 18% to 21%.

The remarketing of variable rate bonds totaling \$15,520 is supported by a Standby Bond Purchase Agreement with a financial institution which obligates that institution to purchase the bonds in the event they cannot be remarketed in the capital markets. Surplus balances in the Fund Net Position of the Bond Debt Service Reserve Fund totaling \$50,000 have been reserved to provide self-liquidity on the remaining \$39,365 of outstanding variable rate bonds which will be utilized to retire those bonds in the event they cannot be remarketed in the capital markets.

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

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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

As of June 30, 2016, aggregate debt service requirements of the Corporation's debt are as shown in the table below. These amounts assume that current interest rates on variable-rate bonds will remain the same for their term; as these rates vary, interest payments on variable-rate bonds will vary.

	Amortization of Principal	Interest Expense	Total Debt Service
Fiscal years ending June 30,			
2017	\$ 92,325	\$ 21,571	\$ 113,896
2018	40,060	21,240	61,300
2019	40,400	20,188	60,588
2020	40,435	19,044	59,479
2021	39,195	17,743	56,938
Five years ending June 30,			
2022-2026	140,620	72,184	212,804
2027-2031	127,745	48,913	176,658
2032-2036	107,860	25,767	133,627
2037-2041	42,330	14,353	56,683
2042	75,865	1,879	77,744
	<u>\$ 746,835</u>	<u>\$ 262,882</u>	<u>\$ 1,009,717</u>

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, 2015	Additions	Reductions	Balance June 30, 2016
Other noncurrent liabilities	<u>\$ 13,594</u>	<u>\$ 1,178</u>	<u>\$ (818)</u>	<u>\$ 13,954</u>

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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, 2016, conduit debt obligations have been issued for 32 multi-family projects totaling approximately \$281,143. 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 KERS, a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"), an agency of the Commonwealth. Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees ("KRS Board") of KRS administers the KERS, County Employees Retirement System and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

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

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

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

Note K--Retirement Plan (Continued)

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

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

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

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

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

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

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

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

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

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

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

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

Note K--Retirement Plan (Continued)

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

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

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

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

Contributions: For the fiscal year ended June 30, 2016, plan members who began participating prior to January 1, 2014 were required to contribute 5% of their annual creditable compensation. Participating employers, including the Corporation, were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board. However, formal commitment to provide the contributions by the employer is made through the Commonwealth's biennial budget. For the fiscal years ended June 30, 2016 and 2015, participating employers, contributed 30.84% each year of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

The total employer contribution for the fiscal year ended June 30, 2016 was \$3,760.

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

Note K--Retirement Plan (Continued)

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount Rate Assumptions:

- (a) Discount rate: The discount rate used to measure the total pension liability was 7.50%.
- (b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) Long term rate of return: The long term rate of return assumption on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.
- (d) Municipal bond rate: The discount rate determination does not use a municipal bond rate.
- (e) Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

Note K--Retirement Plan (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined equity	42%	5.40%
Combined fixed income	20	1.50%
Real return (diversified inflation strategies)	10	3.50%
Real estate	3	4.50%
Absolute return (diversified hedge funds)	10	4.25%
Private equity	10	8.50%
Cash equivalents	5	0.25%
Total	<u>100%</u>	

(g) Sensitivity Analysis: This paragraph requires disclosure of the sensitivity of the net pension liability ("NPL") to changes in the discount rate. The Corporation's allocated portion of the NPL of \$75,182, which is based on a discount rate of 7.50%, would increase to \$84,686 using a discount rate of 6.50% and would decrease to \$67,142 using a discount rate of 8.50%.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Employer's Portion of the Collective Net Pension Liability: The Corporation's proportionate share of the Plan's NPL, as indicated above, is \$75,182 or 0.749%. The proportionate share from the prior year was 0.786%. The liability was distributed by the Plan based on 2015 actual employer contributions to the plan.

Measurement Date: June 30, 2015

Pension Expense: The Corporation recognized \$5,782 of pension expense during 2016.

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

Note K--Retirement Plan (Continued)

Changes in assumptions and benefit terms: The following changes in the Plan's assumptions and benefit terms were reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Changes Since Measurement Date: The assumed investment rate of return was decreased subsequent to the measurement date from 7.50% to 6.75%, effective July 1, 2015. The impact on the Corporation's financial statements from this change is not known.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period. The table below provides a summary of the deferred inflows and outflows as of the Measurement Date.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 161	\$ -
Changes of assumptions	3,604	-
Net differences between projected and actual earnings on plan investments	214	-
Change in employer proportionate share of net pension liability	-	2,301
Employer contributions subsequent to the measurement date	<u>3,760</u>	<u>-</u>
Total	<u>\$ 7,739</u>	<u>\$ 2,301</u>

Deferred outflows of resources of \$3,760 resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. The remaining net deferred outflows of resources of \$1,678 are amortized over periods of up to five years with remaining amortization of \$650 in 2017, \$650 in 2018, \$163 in 2019 and \$215 in 2020.

(Continued)

KENTUCKY HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2016
(Dollars in thousands)

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 advance-funded on an actuarially determined basis through the KERS. The Corporation was required to contribute \$967 during 2016. Kentucky Retirement System administers this cost-sharing plan and issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Note 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, 2016. Settlements have not exceeded insurance coverage.

Note N--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 30, 2016, the date the financial statements were issued.

In July 2016, the Corporation successfully completed the economic refunding in their entirety the Series 2006 U and Series 2007 A, B, C and D bonds with the proceeds from the June 2016 issuance of Series 2016 A bonds in the amount of \$72,465. The Series 2016 A bonds have interest rates ranging from .74% to 3.86% and maturity dates ranging from January 1, 2017 to January 1, 2040.

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 grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

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

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

KENTUCKY HOUSING CORPORATION
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CORPORATION'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
KENTUCKY EMPLOYEES RETIREMENT SYSTEM – NONHAZARDOUS
PRESENTED FOR YEARS INFORMATION IS AVAILABLE
Year Ended June 30, 2016
(Dollars in thousands)

	2016	2015
Corporation's proportion of the net pension liability	0.75%	0.79%
Corporation's proportionate share of the net pension liability	\$ 75,182	\$ 70,519
Corporation's covered-employee payroll	\$ 12,192	\$ 13,011
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	616.65%	542.00%
Plan fiduciary net position as a percentage of the total pension liability	18.83%	22.32%

The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

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

The following changes in the Plan's assumptions and benefit terms were reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CORPORATION'S EMPLOYER CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM – NONHAZARDOUS
PRESENTED FOR YEARS INFORMATION IS AVAILABLE
Year Ended June 30, 2016
(Dollars in thousands)

	2016	2015
Actuarially determined required contribution	\$ 3,760	\$ 2,250
Actual contributions made	(3,760)	(2,250)
Contribution deficiency (excess)	\$ -	\$ -
Corporation's covered-employee payroll	\$ 12,192	\$ 13,011
Contributions as a percentage of covered-employee payroll	30.84%	17.29%

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

See Independent Auditor's Report.

**SUPPLEMENTARY COMBINING INFORMATION
HOUSING REVENUE BOND FUNDS**

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF NET POSITION
HOUSING REVENUE BOND FUNDS
June 30, 2016
(Dollars in thousands)

ASSETS	Bond Proceeds Fund	Recoveries of Principal Fund	Bond Debt Service Fund	Bond Debt Service Reserve Fund	Trust Fund	Redemption Fund	Combined Totals
Current Assets							
Cash and cash equivalents	\$ 2,285	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,285
Investment securities	83,496	5,378	14,124	7,148	10,478	1,900	122,524
Mortgage-backed securities	5,786	-	-	67	-	-	5,853
Housing mortgage loans	21,683	-	-	-	752	-	22,435
Interfund accounts	(12,577)	8,584	3,961	-	100	-	68
Total Current Assets	<u>100,673</u>	<u>13,962</u>	<u>18,085</u>	<u>7,215</u>	<u>11,330</u>	<u>1,900</u>	<u>153,165</u>
Noncurrent Assets							
Investment securities	-	-	-	156,109	-	-	156,109
Mortgage-backed securities	153,239	-	-	1,772	-	-	155,011
Housing mortgage loans	490,213	-	-	-	43,107	-	533,320
Real estate owned and related receivables	1,593	-	-	-	-	-	1,593
Total Noncurrent Assets	<u>645,045</u>	<u>-</u>	<u>-</u>	<u>157,881</u>	<u>43,107</u>	<u>-</u>	<u>846,033</u>
Total Assets	<u>745,718</u>	<u>13,962</u>	<u>18,085</u>	<u>165,096</u>	<u>54,437</u>	<u>1,900</u>	<u>999,198</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows related to pension	1,290	-	-	-	-	-	1,290
Total Deferred Outflows of Resources	<u>1,290</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,290</u>
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	269	-	-	-	-	-	269
Accrued interest payable	-	-	10,611	-	-	-	10,611
Revenue bonds - current portion	92,325	-	-	-	-	-	92,325
Total Current Liabilities	<u>92,594</u>	<u>-</u>	<u>10,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,205</u>
Noncurrent Liabilities							
Revenue bonds	657,757	-	-	-	-	-	657,757
Other noncurrent liabilities	114	-	-	-	-	-	114
Net pension liability	12,533	-	-	-	-	-	12,533
Total Noncurrent Liabilities	<u>670,404</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>670,404</u>
Total Liabilities	<u>762,998</u>	<u>-</u>	<u>10,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>773,609</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows related to pension	384	-	-	-	-	-	384
FUND NET POSITION							
Restricted by revenue bond indenture	<u>\$ (16,374)</u>	<u>\$ 13,962</u>	<u>\$ 7,474</u>	<u>\$ 165,096</u>	<u>\$ 54,437</u>	<u>\$ 1,900</u>	<u>\$ 226,495</u>

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2016
(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	\$ 29,622	\$ -	\$ -	\$ -	\$ 913	\$ -	\$ -	\$ 30,535
Mortgage-backed securities	8,631	-	-	407	-	-	-	9,038
Marketable securities	6	7	8	4,357	9	6	3	4,396
Net increase (decrease) in fair value of securities	(4,233)	-	-	2,470	-	-	-	(1,763)
Other income	634	-	32	-	-	-	-	666
Total Operating Revenues	<u>34,660</u>	<u>7</u>	<u>40</u>	<u>7,234</u>	<u>922</u>	<u>6</u>	<u>3</u>	<u>42,872</u>
Operating Expenses								
Interest on revenue bonds	-	-	27,574	-	-	-	-	27,574
Provision for losses on loans	388	-	-	-	-	-	-	388
General and administrative	(347)	-	-	-	-	-	-	(347)
Mortgage loan servicers' fees	1,937	-	-	-	164	-	-	2,101
Loan origination costs	77	-	-	-	-	-	-	77
Debt issuance costs	894	-	-	-	-	-	-	894
Total Operating Expenses	<u>2,949</u>	<u>-</u>	<u>27,574</u>	<u>-</u>	<u>164</u>	<u>-</u>	<u>-</u>	<u>30,687</u>
Operating Income (Loss)	31,711	7	(27,534)	7,234	758	6	3	12,185
Interfund Transfers	<u>(17,365)</u>	<u>108</u>	<u>21,863</u>	<u>(13,023)</u>	<u>3,259</u>	<u>(6)</u>	<u>(271)</u>	<u>(5,435)</u>
Change in Fund Net Position	14,346	115	(5,671)	(5,789)	4,017	-	(268)	6,750
Fund Net Position, Beginning of Year	<u>(30,720)</u>	<u>13,847</u>	<u>13,145</u>	<u>170,885</u>	<u>50,420</u>	<u>-</u>	<u>2,168</u>	<u>219,745</u>
Fund Net Position, End of Year	<u>\$ (16,374)</u>	<u>\$ 13,962</u>	<u>\$ 7,474</u>	<u>\$ 165,096</u>	<u>\$ 54,437</u>	<u>\$ -</u>	<u>\$ 1,900</u>	<u>\$ 226,495</u>

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2016
(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	\$ 29,622	\$ -	\$ -	\$ -	\$ 913	\$ -	\$ -	\$ 30,535
Operating expenses	(1,667)	-	-	-	(164)	-	-	(1,831)
Fundings of housing mortgage loans	(11,971)	-	-	-	(3,459)	-	-	(15,430)
Repayments on housing mortgage loans	76,506	-	-	-	4,125	-	-	80,631
Other, net	(2,438)	461	1,781	-	185	-	-	(11)
Net Cash Provided By (Used In) Operating Activities	<u>90,052</u>	<u>461</u>	<u>1,781</u>	<u>-</u>	<u>1,600</u>	<u>-</u>	<u>-</u>	<u>93,894</u>
Cash Flows From Noncapital Financing Activities								
Proceeds from issuance of revenue bonds	73,437	-	-	-	-	-	-	73,437
Payments for debt issuance costs	(685)	-	-	-	-	-	-	(685)
Principal payments on revenue bonds	-	-	(269,920)	-	-	-	-	(269,920)
Interest payments on revenue bonds	-	-	(34,214)	-	-	-	-	(34,214)
Interfund transfers - loan collections and investment income	(151,747)	96,087	53,164	(5,845)	3,259	(6)	(3)	(5,091)
Interfund transfers - purchase of mortgage loans	7,970	(4,622)	(3,348)	-	-	-	-	-
Interfund transfers - retirement of debt	(144,660)	(91,356)	243,462	(7,178)	-	-	(268)	-
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(215,685)</u>	<u>109</u>	<u>(10,856)</u>	<u>(13,023)</u>	<u>3,259</u>	<u>(6)</u>	<u>(271)</u>	<u>(236,473)</u>
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(282,870)	(141,632)	(82,792)	(295,401)	(8,366)	-	(275,665)	(1,086,726)
Sales of investments and mortgage-backed securities	382,866	141,056	91,861	303,009	3,500	-	275,933	1,198,225
Gain on the sales of investments and mortgage-backed securities	15,742	-	-	1,363	-	-	-	17,105
Interest received on investments and mortgage-backed securities	9,365	6	6	4,048	7	6	3	13,441
Net Cash Provided By (Used In) Investing Activities	<u>125,103</u>	<u>(570)</u>	<u>9,075</u>	<u>13,019</u>	<u>(4,859)</u>	<u>6</u>	<u>271</u>	<u>142,045</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(530)	-	-	(4)	-	-	-	(534)
Cash and Cash Equivalents, Beginning of Year	<u>2,815</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,819</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,285</u>

(Continued)

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2016
(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)	\$ 31,711	\$ 7	\$ (27,534)	\$ 7,234	\$ 758	\$ 6	\$ 3	\$ 12,185
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Provision for losses on loans	388	-	-	-	-	-	-	388
Debt issuance costs	894	-	-	-	-	-	-	894
Interest expense on revenue bonds	-	-	27,574	-	-	-	-	27,574
Interest income on mortgage-backed securities	(8,631)	-	-	(407)	-	-	-	(9,038)
Interest income on marketable securities	(6)	(7)	(8)	(4,357)	(9)	(6)	(3)	(4,396)
Net (increase) decrease in fair value of securities	4,233	-	-	(2,470)	-	-	-	1,763
Gain on sale of mortgage-backed								
Other income	(634)	-	(32)	-	-	-	-	(666)
Changes in operating assets and liabilities:								
Fundings of housing mortgage loans	(11,971)	-	-	-	(3,459)	-	-	(15,430)
Repayments on housing mortgage loans	76,506	-	-	-	4,125	-	-	80,631
Other, net	(2,438)	461	1,781	-	185	-	-	(11)
Net Cash Provided By (Used In) Operating Activities	\$ 90,052	\$ 461	\$ 1,781	\$ -	\$ 1,600	\$ -	\$ -	\$ 93,894

See Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of Kentucky Housing Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated September 30, 2016.

Internal Control Over Financial Reporting

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

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

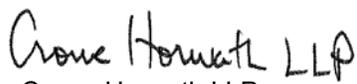
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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


Crowe Horwath LLP

Louisville, Kentucky
September 30, 2016