KENTUCKY HOUSING CORPORATION

FINANCIAL STATEMENTS
JUNE 30, 2017

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June 30, 2017

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Kentucky Housing Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2017, 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, 2017, 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 47 through 48 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 49 through 52 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 27, 2017 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 27, 2017

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, 2017. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Company-wide net position increased $7.0 million during fiscal 2017 to $288.2 million, with an $11.2 million increase coming from business-type activities being offset by a $4.2 million decrease from governmental activities.
- The Corporation's single family loan portfolio increased by $200.1 million during fiscal 2017 providing the Corporation with a steady source of operating revenue. Total loans serviced for others increased to $1.389 billion at June 30, 2017, an increase of $298.7 million from the prior year and now accounts for 69% of total single family loan servicing. Consistent with recent year strategies, with nearly all of the Corporation's loan production being delivered into the secondary market, total loans, including mortgage-backed securities, within the indenture decreased by $92.3 million to $575.2 million.
- Single family loan originations for the year totaled $428.1 million, the second highest in the Corporation's history. With nearly all originations being delivered into the secondary market, the Corporation realized record net cash trading gains in excess of $11.0 million, a $3.7 million increase over the prior year, and fee income totaling $1.2 million, an increase of $.2 million over the prior year.
- Continued low prevailing interest rates allowed the Corporation to economically refund approximately $41.1 million of outstanding bonds with the issuance of the 2016 Series B bonds. As in the past, this action served to increase interest spreads and help maintain net interest margins. In addition, the Corporation eliminated its last Standby Bond Purchase Agreement and as of June 2017 provides self-liquidity for all of its variable rate bonds.
- Consistent with the Corporation's compliance with Government Accounting Standards Board Statement No. 68, the liability of the Corporation for its share of the pension plan's unfunded liability increased by $9.0 million to $84.2 million, and total recorded pension expense increased by $2.9 million to $8.7 million. Except for the increase in pension expense, overall Corporation expense levels for non-reimbursable activities remained virtually the same.
- The foregoing, coupled with an increase of $1.3 million to $3.7 million in fees generated by the Corporation's multi-family origination and preservation efforts, resulted in an increase in operating income of $4.5 million from business-type activities over the prior year when measured before changes in fair value of marketable securities.

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.

- 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.

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 $7.0 million for the year ended June 30, 2017. 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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Current assets	$ 34.2	$ 43.7	$ 200.7	$ 269.1	$ 234.9	$ 312.8
Non-current assets	-	-	818.7	942.4	818.7	942.4
Total Assets	34.2	43.7	1,019.4	1,211.5	1,053.6	1,255.2
Total Deferred Outflows of Resources	2.0	(.6)	10.6	8.4	12.6	7.8
Current liabilities	13.0	18.3	128.5	214.3	141.5	232.6
Non-current liabilities	23.6	20.9	611.0	726.0	634.6	746.9
Total Liabilities	36.6	39.2	739.5	940.3	776.1	979.5
Total Deferred Inflows of Resources	.5	.6	1.4	1.7	1.9	2.3
Net Position:						
Invested in capital assets	-	-	3.7	3.4	3.7	3.4
Restricted	21.2	25.4	233.8	234.4	255.0	259.8
Unrestricted	(22.1)	(22.1)	51.6	40.1	29.5	18.0
Net Position	$ (0.9)	$ 3.3	$ 289.1	$ 277.9	$ 288.2	$ 281.2

The net position of the governmental activities decreased from $3.3 million to ($0.9 million.) All assets of the Corporation's governmental activities are externally restricted for program purposes. Total assets subject to immediate disbursement are reflected as current liabilities and remaining assets are reflected as restricted net position. The decrease in net position indicates that revenues received from governmental activities did not exceed 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.

The net position of the Corporation's business-type activities increased from $277.9 million to $289.1 million as a result of total revenues of $69.9 million, total program expenses of $61.1 million, and transfers in from government operations of $2.4 million, for a net increase in net position of business-type activities of $11.2 million. Comparisons in the changes in net position between fiscal years 2017 and 2016 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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Revenues						
Operating revenues	$ 10.9	$ 11.7	$ 69.9	$ 77.0	$ 80.8	$ 88.7
Operating grants	206.5	222.0	-	-	206.5	222.0
Total Revenues	217.4	233.7	69.9	77.0	287.3	310.7
Program Expenses						
Rental subsidy administration	159.4	155.4	-	-	159.4	155.4
Weatherization program	4.5	3.9	-	-	4.5	3.9
HOME program	9.6	12.0	-	-	9.6	12.0
Hardest Hit Fund program	27.0	31.2	-	-	27.0	31.2
Other federal and state programs	18.7	20.7	-	-	18.7	20.7
Administrative	-	-	12.1	11.2	12.1	11.2
Bond financed loan programs	-	-	27.3	35.2	27.3	35.2
Loan servicing	-	-	6.8	6.1	6.8	6.1
Other loan and housing credit programs	-	-	14.9	12.8	14.9	12.8
Total Program Expenses	219.2	223.2	61.1	65.3	280.3	288.5
Excess before transfers	(1.8)	10.5	8.8	11.7	7.0	22.2
Interfund transfers in (out)	(2.4)	(2.7)	2.4	2.7	-	-
Increase (Decrease) in Net Position	$ (4.2)	$ 7.8	$ 11.2	$ 14.4	$ 7.0	$ 22.2

Total revenues for governmental activities were $217.4 million during fiscal year 2017, a $16.3 million decrease from the $233.7 million in revenues in fiscal year 2016. The increase was due to a $15.5 million decrease in operating grants and a $.8 million decrease in charges for services. Fiscal year 2017 operating grants include federal funding for Rental Assistance ($154.9 million), HOME ($8.8 million), Hardest Hit Fund ($21.2 million) and Weatherization ($4.0 million), which represent 91% of total operating grant revenues.

The Corporation receives fees or charges for services for federal program administration. These revenues decreased from $11.7 million in 2016 to $10.9 million during fiscal year 2017. 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 2017, $10.9 million in fee revenue was received and $8.5 million in operating expenses were incurred thereby enabling a $2.4 million transfer, a $.3 million decrease from the $2.7 million transferred in 2016.

Program expenses for governmental activities decreased during 2017 by $4.0 million. Program expenses for governmental activities during 2017 were $219.2 million, comprised of grants of $210.7 million and operating expenses of $8.5 million. In fiscal 2016, total program expenses were $223.2 million with grants of $214.4 million and operating expenses of $8.8 million.

Total revenues for business-type activities were $69.9 million during fiscal year 2017, a $7.1 million decrease from the $77.0 million of revenues in fiscal year 2016. For fiscal 2017, gains on the sale of loans held for sale increased $6.4 million, interest earnings from loans, mortgage-backed securities and other investments decreased $7.4 million, other income increased $1.7 million and the change in fair value of securities decreased $7.8 million.

Program expenses for business-type activities decreased $4.2 million from $65.3 million in 2016 to $61.1 million in 2017. Bond financed loan program expenses decreased by $7.9 million, administrative expenses, or expenses not directly attributable to programs, increased by $.9 million, loan servicing expenses increased by $.7 million and other loan program expenses increased by $2.1 million. The line items related to these expenses are presented in detail in Table 2.

The excess of revenues over expenses for business-type activities was $8.8 million in 2017 compared to $11.7 million in 2016, a decrease of $2.9 million from 2016. As described above and in additional detail under “Proprietary Funds,” the increase is due to a $7.1 million decrease in revenues and a $4.2 million decrease in expenses. Transfers-in were $2.4 million in 2017, a $.3 million decrease from 2016. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities net position of $11.2 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, 2017, the Corporation retained $34.2 million of total assets for program purposes and had $13.0 million reflected as program liabilities resulting in a total of $21.2 million reflected as restricted fund balances for program purposes.

During fiscal year 2017, the Affordable Housing Trust Fund had revenues greater than expended funds of $1.2 million, thereby increasing the program's fund net position. Rental Assistance revenues of $161.8 million were expended for programs and $2.4 million was transferred to the proprietary funds. Similarly, all HOME program revenues, $9.7 million, were expensed in an equal amount in 2017, as were Weatherization revenues of $4.5 million. Expenses of the Hardest Hit Fund program exceeded revenues by $4.4 million, thereby decreasing the fund net position of the Hardest Hit Fund. Finally, Other Housing Funds expenses exceeded revenues by $1.1 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, 86% of non-grant revenues, 87% 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 79% of the total assets, 39% of total revenues, and 78% 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 secondary market. Beginning in fiscal year 2013, the Corporation also began funding uninsured and, to a much smaller extent, insured 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.

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

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

	2017	2016	Change
Program-Purpose Assets:			
Mortgage loans and real estate owned	$ 580.4	$ 643.7	$ (63.3)
Mortgage-backed securities	114.5	160.9	(46.4)
Housing construction loans	2.0	1.5	0.5
Other loans	6.8	7.8	(1.0)
Total Program-Purpose Assets	703.7	813.9	(110.2)
Cash and Investments	271.6	357.0	(85.4)
Loans held for sale	29.9	26.9	3.0
Other assets	14.2	13.7	0.5
Total Assets	1,019.4	1,211.5	(192.1)
Total Deferred Outflows of Resources	10.6	8.4	2.2
Bonds payable	562.8	750.1	(187.3)
Other liabilities	176.7	190.2	(13.5)
Total Liabilities	739.5	940.3	(200.8)
Total Deferred Inflows of Resources	1.4	1.7	(0.3)
Fund Net Position	$ 289.1	$ 277.9	$ 11.2

Total program-purpose assets at June 30, 2017 were $703.7 million. Mortgage loans, mortgage-backed securities, housing construction loans and other loans decreased by $110.2 million or 14% during 2017. The decrease was the result of program loan fundings of $42.6 million, program loan repayments of $104.6 million, an allowance for loan loss increase of $1.5 million, an accrued program loan interest decrease of $.3 million, plus net decreases in mortgage-backed securities, of $46.4 million, of which $15.9 million was due to the sale of mortgage-backed securities and the majority of the remaining $30.5 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 $298.0 million in loans serviced for others, from $1.091 billion to $1.389 billion, generated by the Secondary Market Mortgage Purchase program. The loans serviced for others portfolio is not reported in the Statement of Net Position. The weighted average servicing fee rate on this portfolio was 36.1 basis points as of June 30, 2017. The increase in loans serviced for others results from origination and subsequent sale into the secondary market of approximately $429.2 million and acquisitions of $15.4 million, net of payoffs and loan principal payments totaling approximately $146.6 million.

The Debt Service Reserve Fund maintains deposits to provide additional security and a source of liquidity to bond investors. Deposits must be maintained at the level required under the Corporation's bond indenture. At June 30, 2017, the Debt Service Reserve requirement was $65.2 million and the amount on deposit was $166.3 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 $65 million of the remaining $101.1 million in excess reserves for purposes of providing self-liquidity for certain of the Corporation's variable rate bonds, thereby saving the cost of paying outside liquidity providers.

During 2017, the Corporation issued short- and long-term bonds and incurred other short-term debt (lines of credit) in the amount of $382.3 million. This includes Housing Revenue Bonds issued of $41.1 million and $341.2 million of line of credit borrowings. Total bond and line-of-credit principal repayments was $589.1 million and the change in net unamortized bond premium was $.3 million. As a result of this activity, bonds outstanding decreased $187.3 million and short-term debt decreased by $19.9 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)

	2017	2016	Change
Interest income on loans	$ 31.4	$ 34.8	$ (3.4)
Interest income on mortgage-backed securities	5.1	9.1	(4.0)
Interest income on marketable securities	4.4	4.4	-
Increase (decrease) in fair value of securities	(9.5)	(1.8)	(7.7)
Gains on sales of loans held for sale	24.2	17.8	6.4
Fees, charges and other income	14.3	12.7	1.6
Total operating revenues	69.9	77.0	(7.1)
Interest expense on revenue bonds and lines of credit	20.2	28.0	(7.8)
Provision for loan losses	1.8	2.0	(0.2)
General and administrative	24.6	22.2	2.4
Loan origination costs	10.8	8.9	1.9
Other expenses	3.7	4.2	(0.5)
Total operating expenses	61.1	65.3	(4.2)
Operating income (loss)	8.8	11.7	(2.9)
Interfund transfers in	2.4	2.7	(0.3)
Changes in Fund Net Position	$ 11.2	$ 14.4	$ (3.2)

Net position increased by $11.2 million in 2017, compared to a $14.4 million increase for 2016. The $3.2 million decrease is attributable to several factors. Net interest income on loans, mortgage-backed securities and marketable securities decreased $7.4 million, from $48.3 million in 2016 to $40.9 million in 2017. Gains on sales of loans held for sale increased $6.4 million, from $17.8 million in 2016 to $24.2 million in 2017. The change in fair value of investment securities decreased by $7.7 million, from ($1.8 million) in 2016 to ($9.5 million) in 2017. Fees, charges and other income increased $1.6 million, from $12.7 million in 2016 to $14.3 million in 2017.

Interest expense on revenue bonds and lines of credit decreased $7.8 million, from $28.0 million in 2016 to $20.2 million in 2017. The provision for loan losses decreased $.2 million, from $2.0 million in 2016 to $1.8 million in 2017. General and administrative expenses increased $2.4 million, from $22.2 million in 2016 to $24.6 million in 2017. Loan origination costs increased $1.9 million, from $8.9 million in 2016 to $10.8 million in 2017.

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs, decreased $.5 million, from $4.2 million in 2016 to $3.7 million in 2017.

Finally, changes in fund net position were impacted by interfund transfers of $2.4 million, a $.3 million decrease from transfers of $2.7 million in 2016. (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 severe underfunded status of and resultant future contributions to the Corporation’s pension plan. See Note K for a description of the Corporation’s participation in the state pension plan. During fiscal 2017 the plan’s board of trustees adopted more conservative actuarial assumptions to be used in future calculations which are anticipated to greatly increase the Corporation’s recorded portion of the unfunded liability and accelerate the timing of cash contributions. In August 2017, consultants delivered to the state Public Pension Oversight Board a report recommending further changes, primarily related to reducing benefit levels. The Governor of Kentucky has expressed his desire to call a special session of the General Assembly of the Commonwealth for purposes of considering these recommendations and enacting possible pension reforms. The Corporation is mindful of not only the financial impact of possible changes, but also the possible impact on staffing, as individual employees consider the personal financial impacts of possible changes. Though the Corporation’s total pension cash contributions for fiscal year 2018 are anticipated to be only nominally higher than fiscal 2017, recorded fiscal 2018 pension expense is anticipated to increase substantially; both pension expense and contributions in fiscal 2019 and beyond are expected to be significantly higher. 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. While management considers the appropriate response to these challenges, it 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.

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 continues to increase 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 helps stretch our mission dollar to reach the maximum number of the Commonwealth's population in need.

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. This decrease has started to result in decreasing amounts of net interest income, despite ongoing efforts to increase spreads. This scenario does not necessarily weaken the relative strength of the indenture portfolio or the Corporation, 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. The Corporation's exposure to variable rate bonds is now just under $55 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, or other economic conditions including changes in mortgage prepayment patterns, 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, or availability of sufficient funding sources, 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.

With the change in political control in Washington, the Corporation's management is watching closely for developments that could foreshadow substantial shifts in national housing policies and finance initiatives, or substantive changes in the roles of Fannie Mae and Freddie Mac, which could necessitate significant adjustments in the Corporation's delivery of safe affordable housing and financing. Similarly, management is monitoring 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. The status of the contract for Section 8 project based contract administration is of particular concern as the loss of this contract, or significant negative changes to the financial opportunities of this activity, would have a negative impact on Corporation operating results.

Though overall the economy of Kentucky continues to improve, elevated unemployment and stubborn economic conditions in certain 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. Though default rates are presently at historic low levels, management is mindful that unexpected economic downturns could subject the portfolio to increased losses. 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."

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 45 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, 2017. 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, 2017
(Dollars in thousands)

	Governmental Activities	Business-Type Activities	Combined Totals
ASSETS			
Current Assets			
Cash and cash equivalents	$ 16,079	$ 75,619	$ 91,698
Investment securities	16,950	57,032	73,982
Mortgage-backed securities	-	4,353	4,353
Housing mortgage loans held for sale	-	29,850	29,850
Housing mortgage loans	-	25,785	25,785
Housing construction loans	-	2,015	2,015
Other loans	-	623	623
Accounts receivable and other assets	1,894	4,753	6,647
Interfund accounts	(705)	705	-
Total Current Assets	34,218	200,735	234,953
Noncurrent Assets			
Investment securities	-	138,985	138,985
Mortgage-backed securities	-	110,175	110,175
Housing mortgage loans	-	553,965	553,965
Other loans	-	6,194	6,194
Real estate owned and related receivables	-	613	613
Capital assets	-	3,673	3,673
Other noncurrent assets	-	5,028	5,028
Total Noncurrent Assets	-	818,633	818,633
Total Assets	34,218	1,019,368	1,053,586
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	1,997	10,642	12,639
Total Deferred Outflows of Resources	1,997	10,642	12,639
LIABILITIES			
Current Liabilities			
Lines of credit	-	27,080	27,080
Accounts payable and other liabilities	13,017	2,212	15,229
Accrued interest payable	-	8,160	8,160
Escrows and project reserves	-	64,874	64,874
Revenue bonds, due within one year	-	26,190	26,190
Total Current Liabilities	13,017	128,516	141,533
Noncurrent Liabilities			
Revenue bonds, due after one year	-	536,647	536,647
Other noncurrent liabilities	-	13,753	13,753
Net pension liability	23,579	60,632	84,211
Total Noncurrent Liabilities	23,579	611,032	634,611
Total Liabilities	36,596	739,548	776,144
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	542	1,407	1,949
NET POSITION			
Net investment in capital assets	-	3,673	3,673
Restricted by			
Revenue bond indenture	-	225,825	225,825
Enabling legislation	-	7,984	7,984
Program requirements	21,201	-	21,201
Unrestricted	(22,124)	51,573	29,449
Net Position	$ (923)	$ 289,055	$ 288,132

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
CORPORATION-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017
(Dollars in thousands)

	Direct Expenses		Program Revenues		Net (Expense) Revenues and Changes in Net Position		
Functions/Activities	**Grants**	**Operating**	**Charges for Services**	**Operating Grants**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental Activities							
Rental assistance	$ 154,882	$ 4,549	$ 6,967	$ 154,882	$ 2,418	$ -	$ 2,418
HOME program	8,779	866	872	8,779	6	-	6
Weatherization	3,967	542	546	3,967	4	-	4
Hardest Hit Fund program	25,504	1,501	1,504	21,150	(4,351)	-	(4,351)
Other federal and state housing programs	17,578	1,060	1,066	17,674	102	-	102
Total Governmental Activities	210,710	8,518	10,955	206,452	(1,821)	-	(1,821)
Business-Type Activities							
Administrative	1,212	10,876	662	-	-	(11,426)	(11,426)
Bond financed loan programs	-	27,272	27,463	-	-	191	191
Loan servicing	-	6,848	9,786	-	-	2,938	2,938
Other loan and housing credit programs	-	14,941	32,030	-	-	17,089	17,089
Total Business-Type Activities	1,212	59,937	69,941	-	-	8,792	8,792
Total Activities	$ 211,922	$ 68,455	$ 80,896	$ 206,452	(1,821)	8,792	6,971
Transfers					(2,388)	2,388	-
Change in Net Position					(4,209)	11,180	6,971
Net Position, Beginning of Year					3,286	277,875	281,161
Net Position, End of Year					$ (923)	$ 289,055	$ 288,132

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2017
(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	$ 3,394	$ 9,933	$ -	$ -	$ 209	$ 113	$ 2,430	$ 16,079
Investment securities	7,407	-	-	-	-	8,099	1,444	16,950
Accounts receivable and other assets	-	654	-	436	-	-	804	1,894
Interfund accounts	-	(79)	-	(87)	(211)	-	(328)	(705)
Total Current Assets	10,801	10,508	-	349	(2)	8,212	4,350	34,218
Noncurrent Assets								
Program loans	17,049	103,164	44,251	-	-	114,436	1,899	280,799
Less loan loss provision	(17,049)	(103,164)	(44,251)	-	-	(114,436)	(1,899)	(280,799)
Total Noncurrent Assets	-	-	-	-	-	-	-	-
Total Assets	$ 10,801	$ 10,508	$ -	$ 349	$ (2)	$ 8,212	$ 4,350	$ 34,218
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	$ 76	$ 10,507	$ -	$ 349	$ (2)	$ 1,560	$ 527	$ 13,017
FUND BALANCE								
Restricted by program requirements	10,725	1	-	-	-	6,652	3,823	21,201
Total Liabilities and Fund Balance	$ 10,801	$ 10,508	$ -	$ 349	$ (2)	$ 8,212	$ 4,350	$ 34,218

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE CORPORATION-WIDE STATEMENT OF NET POSITION
June 30, 2017
(Dollars in thousands)

Fund balances - total governmental funds	$	21,201
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		(23,579)
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 $1,366 represents deferred outflow of 2017 employer contributions related to pensions		1,366
Other deferred outflows of resources related to pensions		631
Deferred inflows of resources related to pensions		(542)
Net position of governmental activities	$	(923)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION – GOVERNMENTAL FUNDS
Year Ended June 30, 2017
(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	$ -	$ 872	$ 546	$ 6,967	$ 1,504	$ 1,066	$ 10,955
Pass-through grant revenues	5,442	8,780	3,967	154,882	21,150	12,231	206,452
Total Revenues	5,442	9,652	4,513	161,849	22,654	13,297	217,407
Expenditures							
General and administrative	-	872	546	4,579	1,504	1,066	8,567
Pass-through grant expenditures	4,223	8,779	3,967	154,882	25,504	13,355	210,710
Total Expenditures	4,223	9,651	4,513	159,461	27,008	14,421	219,277
Revenues in Excess of / (Less Than) Expenditures	1,219	1	-	2,388	(4,354)	(1,124)	(1,870)
Interfund Transfers	-	-	-	(2,388)	-	-	(2,388)
Change in Fund Balance	1,219	1	-	-	(4,354)	(1,124)	(4,258)
Fund Balance, Beginning of Year	9,506	-	-	-	11,006	4,947	25,459
Fund Balance, End of Year	$ 10,725	$ 1	$ -	$ -	$ 6,652	$ 3,823	$ 21,201

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, 2017
(Dollars in thousands)

Net changes in fund balances - total governmental funds		$ (4,258)
Amounts reported for governmental activities in the Corporation-Wide Statement of Activities are different because of the measurement focus attributable to:		
Governmental funds report pension contributions as expenditures using the current 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.		
Corporation pension contributions (deferred outflows)	$ 1,366	
Cost of pension benefits earned	(1,317)	49
Change in net position of governmental activities		$ (4,209)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2017
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
ASSETS				
Current Assets				
Cash and cash equivalents	$ 73,470	$ 1,339	$ 810	$ 75,619
Investment securities	3,567	52,245	1,220	57,032
Mortgage-backed securities	-	4,353	-	4,353
Housing mortgage loans held for sale	29,850	-	-	29,850
Housing mortgage loans	4,837	20,948	-	25,785
Housing construction loans	1,061	-	954	2,015
Other loans	623	-	-	623
Accounts receivable and other assets	4,753	-	-	4,753
Interfund accounts	(4,406)	111	5,000	705
Total Current Assets	113,755	78,996	7,984	200,735
Noncurrent Assets				
Investment securities	-	138,985	-	138,985
Mortgage-backed securities	-	110,175	-	110,175
Housing mortgage loans	73,513	480,452	-	553,965
Other loans	6,194	-	-	6,194
Real estate owned and related receivables	-	613	-	613
Capital assets	3,673	-	-	3,673
Other noncurrent assets	5,028	-	-	5,028
Total Noncurrent Assets	88,408	730,225	-	818,633
Total Assets	202,163	809,221	7,984	1,019,368
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	8,535	2,107	-	10,642
Total Deferred Outflows of Resources	8,535	2,107	-	10,642

(Continued)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2017
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
LIABILITIES				
Current Liabilities				
Lines of credit	$ 27,080	$ -	$ -	$ 27,080
Accounts payable and other liabilities	2,151	61	-	2,212
Accrued interest payable	-	8,160	-	8,160
Escrows and project reserves	64,874	-	-	64,874
Revenue bonds - current portion	-	26,190	-	26,190
Total Current Liabilities	94,105	34,411	-	128,516
Noncurrent Liabilities				
Revenue bonds	-	536,647	-	536,647
Other noncurrent liabilities	13,672	81	-	13,753
Net pension liability	46,594	14,038	-	60,632
Total Noncurrent Liabilities	60,266	550,766	-	611,032
Total Liabilities	154,371	585,177	-	739,548
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	1,081	326	-	1,407
NET POSITION				
Invested in capital assets	3,673	-	-	3,673
Restricted by				
Revenue bond indenture	-	225,825	-	225,825
Enabling legislation	-	-	7,984	7,984
Unrestricted	51,573	-	-	51,573
Net Position	$ 55,246	$ 225,825	$ 7,984	$ 289,055

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2017
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Operating Revenues				
Interest and fee income				
Housing mortgage and construction loans	$ 4,703	$ 26,528	$ 123	$ 31,354
Mortgage-backed securities	-	5,120	-	5,120
Marketable securities	14	4,364	5	4,383
Net (decrease) in fair value of securities	-	(9,506)	-	(9,506)
Gains on sales of loans held for sale	24,201	-	-	24,201
Fees, charges and other income	13,726	663	-	14,389
Total Operating Revenues	42,644	27,169	128	69,941
Operating Expenses				
Interest on revenue bonds and lines of credit	550	19,603	-	20,153
Provision for losses on loans	1,432	394	(9)	1,817
General and administrative	24,610	(27)	-	24,583
Housing assistance grants	1,212	-	-	1,212
Mortgage loan servicers fees	32	1,871	-	1,903
Loan origination costs	10,674	88	-	10,762
Debt issuance costs	-	719	-	719
Total Operating Expenses	38,510	22,648	(9)	61,149
Operating Income (Loss)	4,134	4,521	137	8,792
Interfund Transfers	7,579	(5,191)	-	2,388
Change in Net Position	11,713	(670)	137	11,180
Net Position, Beginning of Year	43,533	226,495	7,847	277,875
Net Position, End of Year	$ 55,246	$ 225,825	$ 7,984	$ 289,055

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2017
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 4,704	$ 26,528	$ 124	$ 31,356
Gain on sales of loans held for sale	21,886	-	-	21,886
Fees, charges and other income	14,490	-	-	14,490
Personnel costs	(21,070)	-	-	(21,070)
Operating expenses	(8,831)	(1,932)	-	(10,763)
Housing assistance grants	(1,212)	-	-	(1,212)
Fundings of housing mortgage loans	(460,882)	(13,278)	-	(474,160)
Repayments on housing mortgage loans	35,350	67,933	-	103,283
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	429,223	-	-	429,223
Net changes in housing construction loans	(855)	-	256	(599)
Other, net	1,641	210	-	1,851
Net Cash Provided By (Used In) Operating Activities	14,444	79,461	380	94,285
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit and issuance of revenue bonds	341,178	41,674	-	382,852
Payments for debt issuance costs	-	(927)	-	(927)
Principal payments on revenue bonds and line of credit	(361,116)	(228,050)	-	(589,166)
Interest payments on lines of credit and revenue bonds	(550)	(22,260)	-	(22,810)
Changes in escrows and project reserves	2,194	-	-	2,194
Interfund transfers	6,950	(4,562)	-	2,388
Net Cash Provided By (Used In) Noncapital Financing Activities	(11,344)	(214,125)	-	(225,469)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(586)	-	-	(586)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(579,458)	(623,189)	(4)	(1,202,651)
Sales of investments and mortgage-backed securities	579,126	746,701	-	1,325,827
Gain on sales of investments and mortgage-backed securities	-	1,431	-	1,431
Interest received on investments and mortgage-backed securities	11	8,775	4	8,790
Net Cash Provided By (Used In) Investing Activities	(321)	133,718	-	133,397
Net Increase (Decrease) in Cash and Cash Equivalents	2,193	(946)	380	1,627
Cash and Cash Equivalents, Beginning of Year	71,277	2,285	430	73,992
Cash and Cash Equivalents, End of Year	$ 73,470	$ 1,339	$ 810	$ 75,619

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2017
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	$ 4,134	$ 4,521	$ 137	$ 8,792
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(2,315)	-	-	(2,315)
Provision for losses on loans	1,432	394	(9)	1,817
Debt issuance costs	-	719	-	719
Amortization of intangible asset	918	-	-	918
Depreciation expense	351	-	-	351
Interest expense on lines of credit and revenue bonds	550	19,603	-	20,153
Interest income on mortgage-backed securities	-	(5,120)	-	(5,120)
Interest income on marketable securities	(14)	(4,364)	(5)	(4,383)
Net decrease in fair value of marketable securities	-	9,506	-	9,506
Other income	-	(663)	-	(663)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(460,882)	(13,278)	-	(474,160)
Repayments on housing mortgage loans	35,350	67,933	-	103,283
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	429,223	-	-	429,223
Housing construction loans	(855)	-	256	(599)
Other, net	6,552	210	1	6,763
Net Cash Provided By (Used In) Operating Activities	$ 14,444	$ 79,461	$ 380	$ 94,285

See Notes to Financial Statements.

Note A--Compliance with Enabling Legislation and Bond Resolutions

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

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

Note B--Summary of Significant Accounting Policies

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

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

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

(Continued)

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

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

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

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

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

Weatherization Assistance: This fund accounts for resources made available from the federal government to assist eligible individuals in reducing their utility costs 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)

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 $114,528 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)

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.

<u>Mortgage Banking Revenue</u>: 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.

<u>Mortgage Servicing Rights</u>: 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.

<u>Real Estate Owned and Related Receivables</u>: 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.

<u>Capital Assets</u>: 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

<u>Net Position</u>: 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."

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement No. 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 has determined the following accounting standards will have no impact on its financial statements: GASB Statement No. 83, *Certain Asset Retirement Obligations*, and GASB Statement No. 86, *Certain Debt Extinguishment Issues.*

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, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than* Pensions is effective for the fiscal year ending June 30, 2018, GASB Statement No. 84, *Fiduciary Activities,* is effective for the fiscal year ending June 30, 2020, GASB Statement No. 85, *Omnibus 2017,* is effective for the fiscal year ending June 30, 2018, and GASB Statement No. 87*, Leases,* is effective for the fiscal year ending December 15, 2021. The Corporation has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

(Continued)

(Dollars in thousands)

Note C--Cash, Cash Equivalents and Investments

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, 2017, the carrying amount of the Corporation's cash and cash equivalents was $91,698 and the bank balance was $88,289. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $88,289 bank balance, $43,925 was covered by federal depository insurance and $44,364 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 $82,842 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, $16,079 is restricted in governmental activities and $66,763 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, 2017 the Corporation has the following:

Investment Type	Fair Value	Effective Duration (in Years)
U.S. Treasuries	$ 11,357	1.61
U.S. government-sponsored enterprises	136,116	4.48
Mortgage-backed securities	114,528	4.02
Money market funds	65,494	0.00
Total Investment and Mortgage-Backed Securities	327,495	3.32
Less amounts shown as current assets	78,335	
Noncurrent Investment and Mortgage-Backed Securities	$ 249,160	

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

(Continued)

(Dollars in thousands)

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

Credit Risk: The Corporation's investment policy defines the types of investments available to the Corporation. Investments, including the underlying securities for money market funds, are held by the Corporation's trustee in the Corporation's name. The Corporation's investments are rated as follows by Moody's Investors Service at June 30, 2017:

Investment Type	Moody's Rating
Mortgage-backed securities	Aaa
U.S. Treasuries	Aaa
U.S. government-sponsored enterprises	Aaa
Certificates of deposit	Not rated
Money market funds	Not rated

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Substantially all of the Corporation's investments are held in the name of the Corporation by a trustee.

Concentration of Credit Risk: The Corporation's investment policy places no limit on the amount the Corporation may invest in any one issuer. Investments in issuers exceeding five percent (5%) of the Corporation's portfolio at June 30, 2017 consist of the following:

Issuer	Fair Value	Percentage of Portfolio
U.S. government-sponsored enterprises	$ 136,116	42%
GNMA	114,528	35%
Dreyfus	65,288	20%

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 $107,489 as of June 30, 2017. The performance of the GNMA securities is guaranteed by GNMA, though as servicer of the GNMA pools, the Corporation is exposed to minimal residual risk on the underlying loans in the event, that upon default of a loan, the insurance or guarantee received is insufficient to fully reimburse the Corporation.

(Continued)

(Dollars in thousands)

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

The 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, 2017:

		Fair Value Measurements at June 30, 2017 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	$ 11,357	$ 11,357	$ -	$ -
U.S. government-sponsored enterprises	136,116	-	136,116	-
Mortgage-backed securities	114,528	-	114,528	-
Total investments by fair value	262,001	$ 11,357	$ 250,644	$ -
Investments by amortized cost	65,494			
Total investments	$ 327,495			

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, 2017, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$ 471,926
Multifamily (B)	29,404
Total Housing Revenue Bond Funds	501,330
General Funds (C)	86,269
Total Principal	587,599
Add accrued interest receivable on loans	1,870
Total Principal and Accrued Interest	589,469
Less allowance for loan losses	9,719
Net Housing Mortgage Loans	579,750
Less amount shown as current assets	25,785
Noncurrent Housing Mortgage Loans	$ 553,965

(Continued)

(Dollars in thousands)

Note D--Housing Mortgage Loans (Continued)

Additional information related to loans includes:

Note (A) Single-family includes $453,123 in federally insured or guaranteed loans, $13,515 of non-insured loans with initial loan-to-value ratios less than 90%, and $5,288 of loans covered by private mortgage insurance.

Note (B) Multifamily includes $24,870 in federally insured or guaranteed loans and $4,534 in non-insured loans.

Note (C) General Funds include $29,429 in federally insured or guaranteed loans and $56,840 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 $967.

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 $1,368.

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, 2017, the Corporation is committed to make single-family mortgage loans and housing construction loans totaling $73,013 and $4,161, respectively. The Corporation had $81,712 in outstanding commitments to sell single-family loans at June 30, 2017.

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, 2017:

Servicing Type	Number of Loans	Amounts
GNMA mortgage-backed securities	9,195	$ 904,943
Fannie Mae mortgage-backed securities	1,194	79,845
Fannie Mae whole loans	3,270	405,109
	13,659	$ 1,389,897

(Continued)

(Dollars in thousands)

Note F-- Loan Servicing (Continued)

Included in Fannie Mae mortgage-backed securities totals are loans totaling $9,790 on which the Corporation has retained full default risk on the underlying loans and additional loans totaling $15,019 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 approximately $133,251 for which the Corporation has retained default risk for the twelve months following the origination date.

Servicing rights totaling $5,028 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, 2017 and activity during the year follows:

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

Business-Type Activities	Balance July 1, 2016	Additions	Retirements and Dispositions	Balance June 30, 2017
Land	$ 1,089	$ -	$ -	$ 1,089
Buildings	5,253	110	-	5,363
Equipment	4,582	476	(360)	4,698
Less accumulated depreciation	(7,486)	(351)	360	(7,477)
Net Capital Assets	$ 3,438	$ 235	$ -	$ 3,673

Note H--Lines of Credit

The Corporation's lines of credit at June 30, 2017 and activity during the year follows:

Business-Type Activities	Balance July 1, 2016	Borrowings	Repayments and Dispositions	Balance June 30, 2017
Loan Warehousing Line of Credit 1	$ 38,518	$ 114,428	$ 140,366	$ 12,580
Loan Warehousing Line of Credit 2	8,500	212,250	220,750	-
Loan Warehousing Line of Credit 3	-	14,500	-	14,500
	$ 47,018	$ 341,178	$ 361,116	$ 27,080

Loan Warehousing Line of Credit 1 ("Line 1"), which was paid off and replaced by a new line of credit at the same financial institution on July 1, 2017, had an interest rate of 1.78% on June 30, 2017. The new line of credit is, like Line 1, unsecured and is used for the purchase of mortgage loans with borrowings to be repaid upon the next issuance of Housing Revenue Bonds or the sale of loans into the secondary market or to other investors. The new line provides for borrowings up to $25,000, bears interest at one-month LIBOR plus 60 basis points and matures June 30, 2018.

(Continued)

(Dollars in thousands)

Note H--Lines of Credit (Continued)

Loan Warehousing Line of Credit 3 ("Line 3") replaced Warehouse Line of Credit 2 ("Line 2") on June 30, 2017. Like Line 2, Line 3 is unsecured and is also with the same financial institution. Line 3 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, and to purchase certain FHA and RHS loans pending receipt of insurance/guarantee payments from the respective agencies. Line 3 provides for borrowings up to $40,000, bears interest based on one-month LIBOR plus 50 basis points, and matures on June 30, 2018. The interest rate as of June 30, 2017 was 1.72%

Note I--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2017 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2016	Issued	Repaid/ Retired	Balance June 30, 2017	Amount Due Within One Year
Housing Revenue Bonds:						
2005 Series I	$ 22,940	$ 75	$ -	$ 75	$ -	$ -
2006 Series O:						
2018-2036, variable	29,035	15,520	-	215	15,305	445
2006 Series T:						
2018-2038, variable	23,300	8,455	-	100	8,355	215
2006 Series U	45,000	14,130	-	14,130	-	-
2006 Series W:						
2018-2038, variable	38,380	12,090	-	160	11,930	320
2007 Series A	39,545	21,855	-	21,855	-	-
2007 Series B	38,000	340	-	340	-	-
2007 Series C	50,000	34,950	-	34,950	-	-
2007 Series D	30,000	1,190	-	1,190	-	-
2007 Series E	45,000	31,820	-	31,820	-	-
2007 Series G	6,285	5,925	-	5,925	-	-
2007 Series H	34,965	5,875	-	5,875	-	-
2007 Series I	16,620	420	-	420	-	-
2007 Series J:						
2018-2038, variable	17,130	12,740	-	-	12,740	160
2007 Series L	25,485	305	-	305	-	-
2007 Series M	27,000	970	-	970	-	-
2007 Series N	40,000	1,615	-	1,615	-	-
2007 Series O:						
2018, variable	10,000	6,080	-	150	5,930	145
2008 Series A:						
2018-2033, 4.35%	39,270	1,975	-	1,600	375	185
2008 Series C	14,230	305	-	305	-	-
2008 Series E:						
2018-2019, 4.15%	60,000	7,050	-	6,035	1,015	790

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2016	Issued	Repaid/ Retired	Balance June 30, 2017	Amount Due Within One Year
Housing Revenue Bonds:						
2009 Series B:						
2018-2027, 3.65% to 4.75%	$ 60,000	$ 23,355	$ -	$ 12,070	$ 11,285	$ 690
2009 Series C, Sub series C-3	30,000	20,030	-	20,030	-	-
2009 Series C, Sub series C-4:						
2028-2042, 2.52%	30,000	23,820	-	2,570	21,250	-
2010 Series A:						
2018-2027, 3.05% to 5.00%	40,000	11,855	-	4,505	7,350	1,750
2010 Series B:						
2018-2028, 2.95% to 5.00%	40,000	14,505	-	4,220	10,285	1,630
2010 Series C:						
2028-2034, 4.375% to 4.625%	10,000	5,820	-	270	5,550	-
2010 Series D:						
2018-2021, 4.00% to 4.40%	46,000	16,210	-	3,390	12,820	1,840
2010 Series E:						
2021-2036, 3.625% to 4.75%	20,000	18,580	-	2,200	16,380	-
2011 Series A:						
2018-2028, 3.25% to 5.00%	20,000	9,075	-	2,555	6,520	555
2011 Series B:						
2018-2028, 2.20% to 4.25%	20,000	11,875	-	2,435	9,440	620
2012 Series A:						
2018-2034, 2.029% to 4.268%	187,755	120,690	-	14,025	106,665	5,900
2013 Series A:						
2041, 3.00%	52,940	35,240	-	6,950	28,290	-
2013 Series B:						
2041, 3.00%	54,920	38,805	-	6,340	32,465	-
2013 Series C:						
2018-2024, 1.80% to 3.520%	36,470	26,095	-	3,575	22,520	1,815
2013 Series D:						
2024-2033, 3.20% to 3.75%	49,410	28,270	-	3,295	24,975	-
2013 Series E:						
2018-2024, 1.75% to 3.20%	7,590	6,955	-	1,625	5,330	460
2013 Series G	4,300	50	-	50	-	-
2014 Series A:						
2018-2034, 1.107% to 4.296%	61,445	52,910	-	2,245	50,665	4,405
2014 Series B:						
2018-2037, 1.678% to 4.097%	30,000	26,545	-	2,190	24,355	530
2016 Series A:						
2018-2040, 0.98% to 3.86%	72,465	72,465	-	4,440	68,025	2,210
2016 Series B:						
2018-2038, 1.10% to 4.00%	41,110	-	41,110	1,035	40,075	1,525
Total Housing Revenue Bonds	$ 1,566,590	746,835	$ 41,110	$ 228,050	559,895	$ 26,190
Unamortized premium		3,247			2,942	
Net Revenue Bonds		$ 750,082			$ 562,837	

(Continued)

(Dollars in thousands)

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

As indicated in the above table, bond issues totaling $54,260 have variable rates of interest. These rates are determined periodically by bond remarketing agents 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%. Surplus balances in the Fund Net Position of the Bond Debt Service Reserve Fund totaling $65,000 have been reserved to provide self-liquidity on these bonds, which will be utilized to retire the 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.

As of June 30, 2017, 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,			
2018	$ 26,190	$ 16,902	$ 43,092
2019	38,225	16,984	55,209
2020	38,120	15,957	54,077
2021	36,435	14,798	51,233
2022	31,880	13,743	45,623
Five years ending June 30,			
2023-2027	118,615	54,878	173,493
2028-2032	109,845	35,634	145,479
2033-2037	78,500	17,888	96,388
2038-2042	82,085	10,303	92,388
	$ 559,895	$ 197,087	$ 756,982

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, 2016	Additions	Reductions	Balance June 30, 2017
Other noncurrent liabilities	$ 13,954	$ 1,648	$ (1,849)	$ 13,753

(Continued)

Note J--Conduit Debt Obligations

The Corporation uses its tax-exempt debt issuing authority to provide financial assistance to private-sector developers for the acquisition and rehabilitation, or the construction of multi-family housing projects serving low-to-moderate income households. The debt is collateralized by revenues generated by the properties financed and is repayable solely from payments received on the underlying mortgage loans and any specific third-party credit enhancement associated with the individual financings. Through June 30, 2017, conduit debt obligations have been issued for 37 multi-family projects totaling approximately $362,368. 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)

(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:

Normal Retirement:

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 2.00%.

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

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

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

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

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

`

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

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

(Continued)

Note 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.

Early Retirement:

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

Age and service requirement: Age 55, with 60 months of service or any age with 25 years of service.

Benefit Amount: Normal retirement benefit reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller.

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 60 with 10 years of service.

Benefit Amount: Normal retirement benefit reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 65, or does not meet the rule of 87 (age plus service) and is younger than age 57, whichever is smaller.

(Continued)

(Dollars in thousands)

Note K--Retirement Plan (Continued)

Contributions: For the fiscal year ended June 30, 2017, 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, 2017 and 2016, participating employers, contributed 40.24% and 30.84%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

The total of the Corporation's employer contribution for the fiscal year ended June 30, 2017 was $4,879.

Total Pension Liability**:** The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2016, 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	6.75 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

(Continued)

(Dollars in thousands)

Note K--Retirement Plan (Continued)

Discount Rate Assumptions:

(a) Discount rate: The discount rate used to measure the total pension liability was 6.75%.

(b) Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 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 is dated December 5, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log–normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. 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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined equity	50%	5.30%
Intermediation duration fixed income	11	1.00%
Custom KRS fixed income	11	3.33%
Core real estate	5	4.25%
Diversified hedge funds	10	4.00%
Private equity	2	8.00%
Diversified inflation strategies	8	3.15%
Cash equivalent	3	(0.25%)
Total	100%	

(g) Sensitivity Analysis: This paragraph requires disclosure of the sensitivity of the net pension liability ("NPL") to changes in the discount rate. The Corporation's allocated portion of the NPL of $84,211, which is based on a discount rate of 6.75%, would increase to $94,870 using a discount rate of 5.75% and would decrease to $75,253 using a discount rate of 7.75%.

(Continued)

(Dollars in thousands)

Note K--Retirement Plan (Continued)

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	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 percent, average, including inflation
Investment rate of return	6.75 percent, net of pension plan investment expense, including inflation

Employer's Portion of the Collective Net Pension Liability: The Corporation's proportionate share of the Plan's NPL, as indicated above, is $84,211 or 0.739%. The proportionate share from the prior year was 0.749%. The liability was distributed by the Plan based on 2016 actual employer contributions to the plan.

Measurement Date: June 30, 2016

Pension Expense: The Corporation recognized $8,734 of pension expense during 2017.

Changes in assumptions and benefit terms since prior measurement date: The following change in the Plan's assumptions and benefit terms was reflected in the valuation performed as of June 30, 2016:

- The assumed investment rate of return, and discount rate, were decreased from 7.50% to 6.75%.

Changes Since Measurement Date: The following changes in the Plan's assumptions and benefit terms are effective July 1, 2016. The impact on the Corporation's financial statements from this change is not known.

- The assumed investment rate of return was decreased from 6.75% to 5.25%
- The salary increase assumption was decreased from 4.00% to 0.00%
- The inflation assumption was decreased from 3.25% to 2.3%

(Continued)

(Dollars in thousands)

Note K--Retirement Plan (Continued)

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.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 88	$ -
Changes of assumptions	6,379	-
Net differences between projected and actual earnings on plan investments	1,293	-
Change in employer proportionate share of net pension liability	-	1,948
Employer contributions subsequent to the measurement date	4,879	-
Total	$ 12,639	$ 1,948

Deferred outflows of resources of $4,879 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, 2018. The remaining net deferred outflows of resources of $5,812 are amortized over periods of up to five years with remaining amortization of $2,977 in 2018, $2,076 in 2019, $491 in 2020 and $268 in 2021.

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 $1,013 during 2017. 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, 2017. Settlements have not exceeded insurance coverage.

Note N--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 27, 2017, the date the financial statements were issued.

(Continued)

Note O--Contingencies

In the normal course of operations, the Corporation receives funding from federal and state government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the Corporation for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Corporation's grant programs is predicated upon the 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, 2017

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, 2017
(Dollars in thousands)

	2017	2016	2015
Corporation's proportion of the net pension liability	0.74%	0.75%	0.79%
Corporation's proportionate share of the net pension liability	$ 84,211	$ 75,182	$ 70,519
Corporation's covered payroll	$ 12,192	$ 12,007	$ 13,011
Corporation's proportionate share of the net pension liability as a percentage of its covered payroll	690.71%	626.15%	542.00%
Plan fiduciary net position as a percentage of the total pension liability	14.80%	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 of the years listed below:

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.

2016:
- The assumed investment rate of return was decreased from 7.50% to 6.75%.

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, 2017
(Dollars in thousands)

	2017	2016	2015
Actuarially determined required contribution	$ 4,879	$ 3,760	$ 3,703
Actual contributions made	(4,879)	(3,760)	(3,703)
Contribution deficiency (excess)	$ -	$ -	$ -
Corporation's covered payroll	$ 12,125	$ 12,192	$ 12,007
Contributions as a percentage of covered payroll	40.24%	30.84%	30.84%

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, 2017
(Dollars in thousands)

	Bond Proceeds Fund	Recoveries of Principal Fund	Bond Debt Service Fund	Bond Debt Service Reserve Fund	Trust Fund	Redemption Fund	Combined Totals
ASSETS							
Current Assets							
Cash and cash equivalents	$ 1,339	$ -	$ -	$ -	$ -	$ -	$ 1,339
Investment securities	8,284	1,609	10,107	22,299	2,840	7,106	52,245
Mortgage-backed securities	4,263	-	-	90	-	-	4,353
Housing mortgage loans	20,180	-	-	-	768	-	20,948
Interfund accounts	(9,240)	5,637	3,584	-	131	(1)	111
Total Current Assets	24,826	7,246	13,691	22,389	3,739	7,105	78,996
Noncurrent Assets							
Investment securities	-	-	-	138,985	-	-	138,985
Mortgage-backed securities	107,893	-	-	2,282	-	-	110,175
Housing mortgage loans	431,827	-	-	-	48,625	-	480,452
Real estate owned and related receivables	613	-	-	-	-	-	613
Total Noncurrent Assets	540,333	-	-	141,267	48,625	-	730,225
Total Assets	565,159	7,246	13,691	163,656	52,364	7,105	809,221
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows related to pension	2,107	-	-	-	-	-	2,107
Total Deferred Outflows of Resources	2,107	-	-	-	-	-	2,107
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	61	-	-	-	-	-	61
Accrued interest payable	-	-	8,160	-	-	-	8,160
Revenue bonds - current portion	26,190	-	-	-	-	-	26,190
Total Current Liabilities	26,251	-	8,160	-	-	-	34,411
Noncurrent Liabilities							
Revenue bonds	536,647	-	-	-	-	-	536,647
Other noncurrent liabilities	81	-	-	-	-	-	81
Net pension liability	14,038	-	-	-	-	-	14,038
Total Noncurrent Liabilities	550,766	-	-	-	-	-	550,766
Total Liabilities	577,017	-	8,160	-	-	-	585,177
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows related to pension	326	-	-	-	-	-	326
FUND NET POSITION							
Restricted by revenue bond indenture	$ (10,077)	$ 7,246	$ 5,531	$ 163,656	$ 52,364	$ 7,105	$ 225,825

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, 2017
(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	$ 25,562	$ -	$ -	$ -	$ 966	$ -	$ -	$ 26,528
Mortgage-backed securities	5,045	-	-	75	-	-	-	5,120
Marketable securities	27	26	35	4,226	20	23	7	4,364
Net increase (decrease) in fair value of securities	(3,765)	-	-	(5,741)	-	-	-	(9,506)
Other income	663	-	-	-	-	-	-	663
Total Operating Revenues	27,532	26	35	(1,440)	986	23	7	27,169
Operating Expenses								
Interest on revenue bonds	-	-	19,603	-	-	-	-	19,603
Provision for losses on loans	394	-	-	-	-	-	-	394
General and administrative	(27)	-	-	-	-	-	-	(27)
Mortgage loan servicers fees	1,697	-	-	-	174	-	-	1,871
Loan origination costs	-	-	-	-	88	-	-	88
Debt issuance costs	719	-	-	-	-	-	-	719
Total Operating Expenses	2,783	-	19,603	-	262	-	-	22,648
Operating Income (Loss)	24,749	26	(19,568)	(1,440)	724	23	7	4,521
Interfund Transfers	(18,452)	(6,742)	17,625	-	(2,797)	(23)	5,198	(5,191)
Change in Fund Net Position	6,297	(6,716)	(1,943)	(1,440)	(2,073)	-	5,205	(670)
Fund Net Position, Beginning of Year	(16,374)	13,962	7,474	165,096	54,437	-	1,900	226,495
Fund Net Position, End of Year	$ (10,077)	$ 7,246	$ 5,531	$ 163,656	$ 52,364	$ -	$ 7,105	$ 225,825

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2017
(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	$ 25,562	$ -	$ -	$ -	$ 966	$ -	$ -	$ 26,528
Operating expenses	(1,670)	-	-	-	(262)	-	-	(1,932)
Fundings of housing mortgage loans	(4,231)	-	-	-	(9,047)	-	-	(13,278)
Repayments on housing mortgage loans	64,420	-	-	-	3,513	-	-	67,933
Other, net	(3,084)	2,947	377	-	(31)	-	1	210
Net Cash Provided By (Used In) Operating Activities	80,997	2,947	377	-	(4,861)	-	1	79,461
Cash Flows From Noncapital Financing Activities								
Proceeds from issuance of revenue bonds	41,674	-	-	-	-	-	-	41,674
Payments for debt issuance costs	(927)	-	-	-	-	-	-	(927)
Principal payments on revenue bonds	-	-	(228,050)	-	-	-	-	(228,050)
Interest payments on revenue bonds	-	-	(22,260)	-	-	-	-	(22,260)
Interfund transfers - loan collections and investment income	(118,859)	73,159	43,962	-	(2,794)	(23)	(7)	(4,562)
Interfund transfers - purchase of mortgage loans	3,855	(3,105)	(750)	-	-	-	-	-
Interfund transfers - retirement of debt	(131,075)	(76,796)	202,669	-	(3)	-	5,205	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(205,332)	(6,742)	(4,429)	-	(2,797)	(23)	5,198	(214,125)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(81,099)	(79,872)	(60,734)	(171,130)	(1,515)	-	(228,839)	(623,189)
Sales of investments and mortgage-backed securities	197,818	83,643	64,755	167,698	9,153	-	223,634	746,701
Gain on the sales of investments and mortgage-backed securities	1,452	-	-	(21)	-	-	-	1,431
Interest received on investments and mortgage-backed securities	5,218	24	31	3,453	20	23	6	8,775
Net Cash Provided By (Used In) Investing Activities	123,389	3,795	4,052	-	7,658	23	(5,199)	133,718
Net Increase (Decrease) in Cash and Cash Equivalents	(946)	-	-	-	-	-	-	(946)
Cash and Cash Equivalents, Beginning of Year	2,285	-	-	-	-	-	-	2,285
Cash and Cash Equivalents, End of Year	$ 1,339	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,339

(Continued)

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2017
(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)	$ 24,749	$ 26	$ (19,568)	$ (1,440)	$ 724	$ 23	$ 7	$ 4,521
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Provision for losses on loans	394	-	-	-	-	-	-	394
Debt issuance costs	719	-	-	-	-	-	-	719
Interest expense on revenue bonds	-	-	19,603	-	-	-	-	19,603
Interest income on mortgage-backed securities	(5,045)	-	-	(75)	-	-	-	(5,120)
Interest income on marketable securities	(27)	(26)	(35)	(4,226)	(20)	(23)	(7)	(4,364)
Net decrease in fair value of securities	3,765	-	-	5,741	-	-	-	9,506
Other income	(663)	-	-	-	-	-	-	(663)
Changes in operating assets and liabilities:								
Fundings of housing mortgage loans	(4,231)	-	-	-	(9,047)	-	-	(13,278)
Repayments on housing mortgage loans	64,420	-	-	-	3,513	-	-	67,933
Other, net	(3,084)	2,947	377	-	(31)	-	1	210
Net Cash Provided By (Used In) Operating Activities	$ 80,997	$ 2,947	$ 377	$ -	$(4,861)	$ -	$ 1	$ 79,461

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, 2017 and the related notes to the financial statements, which collectively compromise the Corporation's basic financial statements and have issued our report thereon dated September 27, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
September 27, 2017