KENTUCKY HOUSING CORPORATION

FINANCIAL STATEMENTS
JUNE 30, 2018

KENTUCKY HOUSING CORPORATION

FINANCIAL STATEMENTS
June 30, 2018

Crowe LLP
Independent Member Crowe Global

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, 2018, 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.

(Continued)

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note K to the financial statements, during the year ended June 30, 2018, the Corporation adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which resulted in a restatement of the Corporation's July 1, 2017 net position of $11.1 million related to the business-type activities ($8.5 million related to the general funds and $2.6 million related to the housing revenue bond funds) and $4.3 million related to the governmental activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the schedule of Corporation's proportionate share of the net pension liability on page 52, the schedule of Corporation's employer pension contributions on page 53, the schedule of the Corporation's proportionate share of the net OPEB liability on page 54, and the schedule of the Corporation's employer OPEB contributions on page 55 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 pages 56 through 59 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.

(Continued)

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated September 26, 2018 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 LLP

Crowe LLP

Louisville, Kentucky
September 26, 2018

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, 2018. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- For fiscal 2018, the Corporation adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"), the provisions of which require the Corporation (as well as all governmental entities) to reflect in the Statement of Net Position the net accumulated unfunded obligations for all post-employment benefits, other than pension obligations, if any. The adoption of this pronouncement as respects the Corporation's post-employment health care insurance benefits obligations, resulted in the restatement of the Corporation's net position at the beginning of the fiscal year from $288.2 million to $272.7 million, a reduction of $15.4 million and the establishment of an unfunded liability of $19.4 million. In addition, because of significant changes in actuarial assumptions with respect to the Corporation's pension plan, and accounting for them pursuant to government accounting standards adopted in 2015, the liability for unfunded pension obligations increased $18.6 million to $102.8 million at June 30, 2018. As a member of the Kentucky Employees Retirement System ("KERS"), the Corporation has always contributed such amounts as were required by the plans, which contribution levels have proven to be insufficient to permit the plans to be fully funded. The plans will require significant amounts of funding for the foreseeable future to bring them up to appropriate funding levels, which consume increased amounts of Corporation resources for these obligations leaving fewer resources available for its mission of providing affordable housing to those in need.

- After consideration of the effects of adopting GASB No. 75, the Corporation's net position increased $19.5 million, resulting from an increase in net position attributable to the Corporation's business-type activities of $15.0 million and an increase of $4.5 million attributable to the Corporation's governmental activities.

- Single family loan originations for the year totaled $573.4 million, the 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 $13.2 million, a $2.2 million increase over the prior year, and fee income totaling $1.6 million, an increase of $.4 million over the prior year.

- The Corporation's single-family loan servicing portfolio increased by $333.9 million during fiscal 2018 providing the Corporation with a steady source of operating revenue. Total loans serviced for others increased to $1.775 billion at June 30, 2018, an increase of $384.7 million from the prior year and now accounts for 76% 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 $70.6 million to $504.6 million.

- Consistent with the requirements of government accounting standards dealing with pensions and other post-employment benefits costs, the Corporation recognized such expenses totaling $17.4 million in fiscal 2018, an increase of approximately $8.7 million over 2017. Expenses other than the foregoing decreased slightly from the prior period.

- Overall, the Corporation increased proprietary operating income $3.8 million (when measured before changes in fair value of marketable securities), which after considering the impacts of the above discussions, resulted primarily from an increase in recognized grant income of $6.5 million, offset by decreases in net interest margin and in fees from the Corporation's multi-family and preservation efforts.

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 and other postemployment benefit ("OPEB") 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 15 and 16

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 9-12 of the MD&A and under the Proprietary Funds' financial statements on pages 21-25.

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 $19.4 million for the year ended June 30, 2018, after consideration of the reduction in net position of $15.4 million as of July 1, 2017 due to the implementation of GASB 75. 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	
	2018	**2017***	**2018**	**2017***	**2018**	**2017***
Current assets	$ 39.4	$ 34.2	$ 208.6	$ 200.7	$ 248.0	$ 234.9
Non-current assets	-	-	772.7	818.7	772.7	818.7
Total Assets	39.4	34.2	981.3	1,019.4	1,020.7	1,053.6
Total Deferred Outflows of Resources	6.6	2.0	17.9	10.6	24.5	12.6
Current liabilities	11.8	13.0	138.3	128.5	150.1	141.5
Non-current liabilities	34.2	23.6	566.2	611.0	600.4	634.6
Total Liabilities	46.0	36.6	704.5	739.5	750.5	776.1
Total Deferred Inflows of Resources	.7	.5	1.8	1.4	2.5	1.9
Net Position:						
Invested in capital assets	-	-	3.5	3.7	3.5	3.7
Restricted	27.7	21.2	230.3	233.8	258.0	255.0
Unrestricted	(28.4)	(22.1)	59.1	51.6	30.7	29.5
Net Position	$ (0.7)	$ (0.9)	$ 292.9	$ 289.1	$ 292.2	$ 288.2

* Results for 2017 were not adjusted for the adoption of GASB 75.

The net position of the governmental activities increased from ($0.9 million) to ($0.7 million), after consideration of the reduction in net position of $4.3 million as of July 1, 2017 due to the implementation of GASB 75. 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 ($28.4 million) represents claims against program administrative revenues not yet received, and impact of the proportionate share of the net pension and OPEB liabilities.

The net position of the Corporation's business-type activities increased from $289.1 million to $292.9 million after consideration of the reduction in net position of $11.1 million as of July 1, 2017 due to the implementation of GASB 75, and as a result of total revenues of $78.9 million, total program expenses of $66.4 million, and transfers in from government operations of $2.5 million, for a net increase in net position of business-type activities of $15.0 million. Comparisons in the changes in net position between fiscal years 2018 and 2017 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	
	2018	**2017***	**2018**	**2017***	**2018**	**2017***
Revenues						
Operating revenues	$ 10.8	$ 10.9	$ 71.7	$ 69.2	$ 82.5	$ 80.1
Operating grants	211.5	206.5	7.2	0.7	218.7	207.2
Total Revenues	222.3	217.4	78.9	69.9	301.2	287.3
Program Expenses						
Rental subsidy administration	163.5	159.4	-	-	163.5	159.4
Weatherization program	3.7	4.5	-	-	3.7	4.5
HOME program	8.7	9.6	-	-	8.7	9.6
Hardest Hit Fund program	18.2	27.0	-	-	18.2	27.0
Other federal and state programs	19.2	18.7	-	-	19.2	18.7
Administrative	-	-	15.1	12.1	15.1	12.1
Bond financed loan programs	-	-	23.5	27.3	23.5	27.3
Loan servicing	-	-	7.4	6.8	7.4	6.8
Other loan and housing credit programs	-	-	20.4	14.9	20.4	14.9
Total Program Expenses	213.3	219.2	66.4	61.1	279.7	280.3
Excess before transfers	9.0	(1.8)	12.5	8.8	21.5	7.0
Interfund transfers in (out)	(2.5)	(2.4)	2.5	2.4	-	-
Increase (Decrease) in Net Position	$ 6.5	$ (4.2)	$ 15.0	$ 11.2	$ 21.5	$ 7.0

* Results for 2017 were not adjusted for the adoption of GASB 75.

Total revenues for governmental activities were $222.3 million during fiscal year 2018, a $4.9 million increase from the $217.4 million in revenues in fiscal year 2017. The increase was due to a $5.0 million increase in operating grants and a $.1 million decrease in charges for services. Fiscal year 2018 operating grants include federal funding for Rental Assistance of $158.9 million, HOME of $7.7 million, Hardest Hit Fund of $17.1 million and Weatherization of $3.2 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 $10.9 million in 2017 to $10.8 million during fiscal year 2018. 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 2018, $10.8 million in fee revenue was received and $8.3 million in operating expenses were incurred thereby enabling a $2.5 million transfer, a $.1 million increase from the $2.4 million transferred in 2017.

Program expenses for governmental activities decreased during 2018 by $5.9 million. Program expenses for governmental activities during 2018 were $213.3 million, comprised of grants of $205.0 million and operating expenses of $8.3 million. In fiscal 2017, total program expenses were $219.2 million with grants of $210.7 million and operating expenses of $8.5 million.

Total revenues for business-type activities were $78.9 million during fiscal year 2018, a $9.0 million increase from the $69.9 million of revenues in fiscal year 2017. For fiscal 2018, gains on the sale of loans held for sale increased $5.1 million, interest earnings from loans, mortgage-backed securities and other investments decreased $4.4 million, grant and other income increased $6.9 million and the change in fair value of securities increased $1.4 million.

Program expenses for business-type activities increased $5.3 million from $61.1 million in 2017 to $66.4 million in 2018. Bond financed loan program expenses decreased by $3.8 million, administrative expenses, or expenses not directly attributable to programs, increased by $3.0 million, loan servicing expenses increased by $.6 million and other loan program expenses increased by $5.5 million. The line items related to these expenses are presented in detail in Table 2.

The excess of revenues over expenses for business-type activities was $12.5 million in 2018 compared to $8.8 million in 2017, an increase of $3.7 million. As described above and in additional detail under “Proprietary Funds,” the increase is due to a $9.0 million increase in revenues and a $5.3 million increase in expenses. Transfers-in were $2.5 million in 2018, a $.1 million increase from 2017. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities net position of $3.8 million.

Fund Financial Statements

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

Governmental Funds – Pages 17 through 20

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, 2018, the Corporation retained $39.5 million of total assets for program purposes and had $11.8 million reflected as program liabilities resulting in a total of $27.7 million reflected as restricted fund balances for program purposes.

During fiscal year 2018, the Affordable Housing Trust Fund had revenues greater than expended funds of $1.9 million, thereby increasing the program's fund net position. Rental Assistance revenues of $163.6 million were expended for programs and $2.5 million was transferred to the proprietary funds. Similarly, all HOME program revenues, $8.7 million, were expensed in an equal amount in 2018, as were Weatherization revenues of $3.7 million. Revenues of the Hardest Hit Fund program exceeded expenses by $4.2 million, thereby increasing the fund net position of the Hardest Hit Fund. Finally, Other Housing Funds revenues exceeded revenues by $0.3 million, thereby increasing the fund net position of Other Housing Funds.

Proprietary Funds – Pages 21 through 25

A significant portion of the Corporation's financial resources and activities is reported in the proprietary fund financial statements. Proprietary funds account for approximately 96% of corporate assets, 87% 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 75% of the total assets, 29% of total revenues, and 76% 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)

	2018	2017*	Change
Program-Purpose Assets:			
Mortgage loans and real estate owned	$ 549.5	$ 580.4	$ (30.9)
Mortgage-backed securities	92.8	114.5	(21.7)
Housing construction loans	1.1	2.0	(0.9)
Other loans	6.0	6.8	(0.8)
Total Program-Purpose Assets	649.4	703.7	(54.3)
Cash and Investments	278.0	271.6	6.4
Loans held for sale	38.5	29.9	8.6
Other assets	15.4	14.2	1.2
Total Assets	981.3	1,019.4	(38.1)
Total Deferred Outflows of Resources	17.9	10.6	7.3
Bonds payable	487.7	562.8	(75.1)
Net pension and OPEB liabilities	88.0	60.6	27.4
Other liabilities	128.8	116.1	12.7
Total Liabilities	704.5	739.5	(35.0)
Total Deferred Inflows of Resources	1.8	1.4	0.4
Fund Net Position	$ 292.9	$ 289.1	$ 3.8

* Results for 2017 were not adjusted for the adoption of GASB 75.

Total program-purpose assets at June 30, 2018 were $649.4 million. Mortgage loans, mortgage-backed securities, housing construction loans and other loans decreased by $54.3 million or 8% during 2018. The decrease was the result of program loan fundings of $57.8 million, program loan repayments of $88.8 million, an allowance for loan loss increase of $1.4 million, an accrued program loan interest decrease of $.2 million, plus net decreases in mortgage-backed securities, of $21.7 million, the majority of which represents principal distributed to holders of the mortgage-backed securities. This decrease in program assets reflects the Corporation’s continued delivery of single-family loan originations into the secondary market.

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, 2018, the Debt Service Reserve requirement was $63.0 million and the amount on deposit was $169.7 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 $106.7 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 2018, the Corporation incurred line of credit borrowings in the amount of $372.6 million. Total bond and line-of-credit principal repayments was $439.4 million and the change in net unamortized bond premium was $.5 million. As a result of this activity, bonds outstanding decreased $75.1 million and short-term debt increased by $7.8 million. The Corporation's Housing Revenue Bond Indenture is rated AAA by Standard & Poor's with a stable outlook and is rated Aaa by Moody's with a 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)

	2018	2017*	Change
Interest income on loans	$ 28.6	$ 31.4	$ (2.8)
Interest income on mortgage-backed securities	4.1	5.1	(1.0)
Interest income on marketable securities	3.8	4.4	(0.6)
Increase (decrease) in fair value of securities	(8.1)	(9.5)	1.4
Gains on sales of loans held for sale	29.3	24.2	5.1
Fees, charges and other income	14.0	13.6	0.4
Grant income	7.2	0.7	6.5
Total operating revenues	78.9	69.9	9.0
Interest expense on revenue bonds and lines of credit	17.1	20.2	(3.1)
Provision for loan losses	2.2	1.8	0.4
General and administrative	30.0	24.6	5.4
Loan origination costs	14.1	10.8	3.3
Other expenses	3.0	3.7	(0.7)
Total operating expenses	66.4	61.1	5.3
Operating income (loss)	12.5	8.8	3.7
Interfund transfers in	2.5	2.4	0.1
Changes in Fund Net Position	$ 15.0	$ 11.2	$ 3.8

* Results for 2017 were not adjusted for the adoption of GASB 75.

Net position increased by $3.8 million in 2018, compared to a $3.2 million decrease for 2017. The $3.8 million increase is attributable to several factors. Interest income on loans, mortgage-backed securities and marketable securities decreased $4.4 million, from $40.9 million in 2017 to $36.5 million in 2018. Gains on sales of loans held for sale increased $5.1 million, from $24.2 million in 2017 to $29.3 million in 2018. The change in fair value of investment securities increased by $1.4 million, from ($9.5 million) in 2017 to ($8.1 million) in 2018. Fees, charges and other income increased $.4 million, from $13.6 million in 2017 to $14.0 million in 2018. Grant income increased $6.5 million, from $.7 million in 2017 to $7.2 million in 2018.

Interest expense on revenue bonds and lines of credit decreased $3.1 million, from $20.2 million in 2017 to $17.1 million in 2018. The provision for loan losses increased $.4 million, from $1.8 million in 2017 to $2.2 million in 2018. General and administrative expenses increased $5.4 million, from $24.6 million in 2017 to $30.0 million in 2018. Loan origination costs increased $3.3 million, from $10.8 million in 2017 to $14.1 million in 2018.

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs, decreased $.7 million, from $3.7 million in 2017 to $3.0 million in 2018.

Finally, changes in fund net position were impacted by interfund transfers of $2.5 million, a $.1 million increase from transfers of $2.4 million in 2017. (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.

As has been the case for the past several years, the single most immediate financial issue facing the Corporation remains the severe underfunded status of and resultant future contributions to both the Corporation's pension plan and the Corporation's post-employment health care insurance benefits obligations plan. See Note K for discussions of the Corporation's participation in these state plans. Eliminating the Corporation's portion of the huge underfunded condition of these plans will require decades of substantial cash infusions, depriving the Corporation of significant resources and resulting in much higher expense recognition. Numerous attempts at legislation to effect pension reform during the 2018 session of the Kentucky General Assembly, designed to reduce the financial exposure to the Commonwealth and other plan participants, were met with objections and, when finally passed, litigation, the outcome of which is not predictable. For the immediate future, the Corporation has received some relief in the form of fiscal 2019 contribution rates remaining the same as fiscal 2018 rates. Rates for years after fiscal 2019 are projected to be significantly higher. 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 implications of possible changes. While management considers the appropriate response to these challenges, it is committed, despite the magnitude of unfunded liabilities, to both generating sufficient resources to continue the Corporation's important role in providing affordable housing and preserving the necessary resources to fund the obligations.

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 impact future loan volumes and pricing. Finding available sources of funding and developing effective designs of down-payment assistance that are both financially advantageous and beneficial to the borrower will become an increasing priority for the next several years.

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 resulting in decreasing net interest margin, despite ongoing efforts to increase spreads. 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, including the effects of threatened tariffs, and political events can have marked impacts on the Corporation's operations and competitive environment. With the current direction of rate increases begun by the Federal Reserve and amid higher employment levels and a hint of inflation, management will be watchful for conditions necessitating changes in current loan funding paradigms. The Corporation's exposure to variable rate bonds is now just under $53 million. Should rates spike in the short term, management is prepared to react to minimize any negative effects to the Corporation. Similarly, a rising rate environment, or other economic conditions including changes in home purchasing patterns or 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. Management, in concert with the Corporation's financial partners, continually considers strategies to take maximum advantage of market conditions.

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. 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. The Corporation is also seeking to assist the Commonwealth's younger citizens aging out of foster care to affordable housing opportunities and to assist its older population to be able to age in place and keep their existing housing affordable.

Corporation management is watching closely for developments at the national level 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 Project Based Contract Administration ("PBCA") contract continues to be a particular concern as the loss of, or significant negative changes to the financial opportunities of this activity, would have a negative impact on Corporation operating results.

Beginning with fiscal 2019, the Corporation has outsourced the day-to-day operations of U.S. Department of Housing and Urban Development's ("HUD") Housing Choice Voucher program. While the Corporation retains overall responsibility to HUD for the proper administration of the program, management believes that leveraging the economies of scale a contractor relationship provides will reduce the overall cost of the program without negatively impacting those citizens served by the program.

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 remain at historically low levels, management is mindful that unexpected economic downturns could subject the Corporation 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, 2018. 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, 2018
(Dollars in thousands)

	Governmental Activities	Business-Type Activities	Combined Totals
ASSETS			
Current Assets			
Cash and cash equivalents	$ 12,583	$ 78,884	$ 91,467
Investment securities	25,840	54,075	79,915
Mortgage-backed securities	-	3,788	3,788
Housing mortgage loans held for sale	-	38,534	38,534
Housing mortgage loans	-	26,011	26,011
Housing construction loans	-	1,091	1,091
Other loans	-	598	598
Accounts receivable and other assets	1,780	4,838	6,618
Interfund accounts	(753)	753	-
Total Current Assets	39,450	208,572	248,022
Noncurrent Assets			
Investment securities	-	145,047	145,047
Mortgage-backed securities	-	89,016	89,016
Housing mortgage loans	-	522,892	522,892
Other loans	-	5,374	5,374
Real estate owned and related receivables	-	616	616
Capital assets	-	3,548	3,548
Other noncurrent assets	-	6,262	6,262
Total Noncurrent Assets	-	772,755	772,755
Total Assets	39,450	981,327	1,020,777
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	5,514	15,276	20,790
Deferred outflows related to OPEB	1,036	2,665	3,701
Total Deferred Outflows of Resources	6,550	17,941	24,491
LIABILITIES			
Current Liabilities			
Lines of credit	-	34,898	34,898
Accounts payable and other liabilities	11,788	1,881	13,669
Accrued interest payable	-	7,263	7,263
Escrows and project reserves	-	70,350	70,350
Revenue bonds, due within one year	-	23,865	23,865
Total Current Liabilities	11,788	138,257	150,045
Noncurrent Liabilities			
Revenue bonds, due after one year	-	463,793	463,793
Other noncurrent liabilities	-	14,382	14,382
Net pension liability	28,788	74,027	102,815
Net OPEB liability	5,453	14,022	19,475
Total Noncurrent Liabilities	34,241	566,224	600,465
Total Liabilities	46,029	704,481	750,510
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	581	1,495	2,076
Deferred inflows related to OPEB	117	302	419
Total Deferred Inflows of Resources	698	1,797	2,495
NET POSITION			
Net investment in capital assets	-	3,548	3,548
Restricted by			
Revenue bond indenture	-	222,166	222,166
Enabling legislation	-	8,153	8,153
Program requirements	27,662	-	27,662
Unrestricted	(28,389)	59,123	30,734
Net Position	$ (727)	$ 292,990	$ 292,263

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
CORPORATION-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018
(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	$ 158,898	$ 5,806	$ 7,207	$ 158,898	$ 1,401	$ -	$ 1,401
HOME program	7,721	1,192	958	7,723	(232)	-	(232)
Weatherization	3,163	662	504	3,163	(158)	-	(158)
Hardest Hit Fund program	17,064	1,271	1,148	21,255	4,068	-	4,068
Other federal and state housing programs	18,171	1,311	1,022	20,439	1,979	-	1,979
Total Governmental Activities	205,017	10,242	10,839	211,478	7,058	-	7,058
Business-Type Activities							
Administrative	995	14,062	697	-	-	(14,360)	(14,360)
Bond financed loan programs	-	23,477	23,090	-	-	(387)	(387)
Loan servicing	-	7,418	10,486	-	-	3,068	3,068
Other loan and housing credit programs	360	20,104	37,448	7,180	-	24,164	24,164
Total Business-Type Activities	1,355	65,061	71,721	7,180	-	12,485	12,485
Total Activities	$ 206,372	$ 75,303	$ 82,560	$ 218,658	7,058	12,485	19,543
Transfers					(2,547)	2,547	-
Change in Net Position					4,511	15,032	19,543
Net Position, Beginning of Year (as restated)					(5,238)	277,958	272,720
Net Position, End of Year					$ (727)	$ 292,990	$ 292,263

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2018
(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	$ 193	$ 9,049	$ -	$ -	$ 667	$ 87	$ 2,587	$ 12,583
Investment securities	12,464	-	-	-	-	11,712	1,664	25,840
Accounts receivable and other assets	-	365	-	284	-	-	1,131	1,780
Interfund accounts	-	(76)	-	(45)	(376)	-	(256)	(753)
Total Current Assets	12,657	9,338	-	239	291	11,799	5,126	39,450
Noncurrent Assets								
Program loans	18,219	98,483	39,720	-	-	97,998	2,225	256,645
Less loan loss provision	(18,219)	(98,483)	(39,720)	-	-	(97,998)	(2,225)	(256,645)
Total Noncurrent Assets	-	-	-	-	-	-	-	-
Total Assets	$ 12,657	$ 9,338	$ -	$ 239	$ 291	$ 11,799	$ 5,126	$ 39,450
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	$ -	$ 9,335	$ -	$ 239	$ 291	$ 956	$ 967	$ 11,788
FUND BALANCE								
Restricted by program requirements	12,657	3	-	-	-	10,843	4,159	27,662
Total Liabilities and Fund Balance	$ 12,657	$ 9,338	$ -	$ 239	$ 291	$ 11,799	$ 5,126	$ 39,450

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE CORPORATION-WIDE STATEMENT OF NET POSITION
June 30, 2018
(Dollars in thousands)

Fund balances - total governmental funds		$ 27,662
Amounts reported for governmental activities in the Statement of Net Position are different because of the measurement attributable to:		
Some liabilities are not due and payable in the current period and, therefore, are not reported in the individual governmental funds: governmental funds:		
Net pension liability	$ (28,788)	
Net OPEB liability	(5,453)	(34,241)
Deferred outflows and inflows or resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the individual governmental funds:		
Deferred outflows of resources representing 2018 employer contributions to pensions and OPEB:		
Contributions related pensions	1,366	
Contributions related to OPEB	322	1,688
Other deferred outflows of resources:		
Outflows related to pensions	4,148	
Outflows related to OPEB	714	4,862
Deferred inflows of resources:		
Inflows related to pensions	(581)	
Inflows related to OPEB	(117)	(698)
Net position of governmental activities		$ (727)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – GOVERNMENTAL FUNDS
Year Ended June 30, 2018
(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	$ -	$ 958	$ 504	$ 7,207	$ 1,148	$ 1,022	$ 10,839
Pass-through grant revenues	4,962	7,723	3,163	158,898	21,255	15,477	211,478
Total Revenues	4,962	8,681	3,667	166,105	22,403	16,499	222,317
Expenditures							
General and administrative	-	958	504	4,660	1,148	1,022	8,292
Pass-through grant expenditures	3,030	7,721	3,163	158,898	17,064	15,141	205,017
Total Expenditures	3,030	8,679	3,667	163,558	18,212	16,163	213,309
Revenues in Excess of Expenditures	1,932	2	-	2,547	4,191	336	9,008
Interfund Transfers	-	-	-	(2,547)	-	-	(2,547)
Change in Fund Balance	1,932	2	-	-	4,191	336	6,461
Fund Balance, Beginning of Year	10,725	1	-	-	6,652	3,823	21,201
Fund Balance, End of Year	$ 12,657	$ 3	$ -	$ -	$ 10,843	$ 4,159	$ 27,662

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, 2018
(Dollars in thousands)

Net changes in fund balances - total governmental funds		$ 6,461
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 and OPEB contributions as expenditures using the current financial resources measurement focus. However, in the Corporation-Wide Statement of Activities, the cost of pension and OPEB benefits earned is reported by the economic resource measurement focus and the full accrual basis of accounting.		
Corporation contributions (deferred outflows) for:		
Pension	$ 1,366	
OPEB	322	1,688
Cost of benefits earned for:		
Pension	(3,098)	
OPEB	(540)	(3,638)
Change in net position of governmental activities		$ 4,511

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2018
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
ASSETS				
Current Assets				
Cash and cash equivalents	$ 77,045	$ 1,703	$ 136	$ 78,884
Investment securities	3,461	48,324	2,290	54,075
Mortgage-backed securities	-	3,788	-	3,788
Housing mortgage loans held for sale	38,534	-	-	38,534
Housing mortgage loans	6,146	19,865	-	26,011
Housing construction loans	364	-	727	1,091
Other loans	598	-	-	598
Accounts receivable and other assets	4,838	-	-	4,838
Interfund accounts	(4,252)	5	5,000	753
Total Current Assets	126,734	73,685	8,153	208,572
Noncurrent Assets				
Investment securities	-	145,047	-	145,047
Mortgage-backed securities	-	89,016	-	89,016
Housing mortgage loans	97,347	425,545	-	522,892
Other loans	5,374	-	-	5,374
Real estate owned and related receivables	-	616	-	616
Capital assets	3,548	-	-	3,548
Other noncurrent assets	6,262	-	-	6,262
Total Noncurrent Assets	112,531	660,224	-	772,755
Total Assets	239,265	733,909	8,153	981,327
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	11,810	3,466	-	15,276
Deferred outflows related to OPEB	2,048	617	-	2,665
Total Deferred Outflows of Resources	13,858	4,083	-	17,941

(Continued)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2018
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
LIABILITIES				
Current Liabilities				
Lines of credit	$ 34,898	$ -	$ -	$ 34,898
Accounts payable and other liabilities	1,825	56	-	1,881
Accrued interest payable	20	7,243	-	7,263
Escrows and project reserves	70,350	-	-	70,350
Revenue bonds - current portion	-	23,865	-	23,865
Total Current Liabilities	107,093	31,164	-	138,257
Noncurrent Liabilities				
Revenue bonds	-	463,793	-	463,793
Other noncurrent liabilities	14,315	67	-	14,382
Net pension liability	56,888	17,139	-	74,027
Net OPEB liability	10,775	3,247	-	14,022
Total Noncurrent Liabilities	81,978	484,246	-	566,224
Total Liabilities	189,071	515,410	-	704,481
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	1,149	346	-	1,495
Deferred inflows related to OPEB	232	70	-	302
Total Deferred Inflows of Resources	1,381	416	-	1,797
NET POSITION				
Invested in capital assets	3,548	-	-	3,548
Restricted by				
Revenue bond indenture	-	222,166	-	222,166
Enabling legislation	-	-	8,153	8,153
Unrestricted	59,123	-	-	59,123
Net Position	$ 62,671	$ 222,166	$ 8,153	$ 292,990

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2018
(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	$ 5,485	$ 22,899	$ 161	$ 28,545
Mortgage-backed securities	-	4,094	-	4,094
Marketable securities	22	3,754	20	3,796
Net (decrease) in fair value of securities	-	(8,080)	-	(8,080)
Gains on sales of loans held for sale	29,341	-	-	29,341
Fees, charges and other income	13,648	377	-	14,025
Grant income	7,180	-	-	7,180
Total Operating Revenues	55,676	23,044	181	78,901
Operating Expenses				
Interest on revenue bonds and lines of credit	745	16,363	-	17,108
Provision for losses on loans	2,378	(198)	12	2,192
General and administrative	29,806	168	-	29,974
Housing assistance grants	1,355	-	-	1,355
Mortgage loan servicers' fees	42	1,667	-	1,709
Loan origination costs	14,078	-	-	14,078
Total Operating Expenses	48,404	18,000	12	66,416
Operating Income (Loss)	7,272	5,044	169	12,485
Interfund Transfers	8,681	(6,134)	-	2,547
Change in Net Position	15,953	(1,090)	169	15,032
Net Position, Beginning of Year	46,718	223,256	7,984	277,958
Net Position, End of Year	$ 62,671	$ 222,166	$ 8,153	$ 292,990

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2018
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 5,486	$ 22,899	$ 161	$ 28,546
Gain on sales of loans held for sale	27,000	-	-	27,000
Fees, charges and other income	21,806	-	-	21,806
Personnel costs	(22,150)	-	-	(22,150)
Operating expenses	(12,417)	(1,835)	-	(14,252)
Housing assistance grants	(1,355)	-	-	(1,355)
Fundings of housing mortgage loans	(615,379)	(5,437)	-	(620,816)
Repayments on housing mortgage loans	25,066	61,410	-	86,476
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	554,205	-	-	554,205
Net changes in housing construction loans	775	-	215	990
Other, net	1,347	297	-	1,644
Net Cash Provided By (Used In) Operating Activities	(15,616)	77,334	376	62,094
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit	372,653	-	-	372,653
Principal payments on revenue bonds and line of credit	(364,835)	(74,620)	-	(439,455)
Interest payments on lines of credit and revenue bonds	(745)	(17,461)	-	(18,206)
Changes in escrows and project reserves	5,476	-	-	5,476
Interfund transfers	6,787	(4,239)	-	2,548
Net Cash Provided By (Used In) Noncapital Financing Activities	19,336	(96,320)	-	(76,984)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(273)	-	-	(273)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(464,510)	(263,653)	(1,067)	(729,230)
Sales of investments and mortgage-backed securities	464,615	275,244	-	739,859
Interest received on investments and mortgage-backed securities	23	7,759	17	7,799
Net Cash Provided By (Used In) Investing Activities	128	19,350	(1,050)	18,428
Net Increase (Decrease) in Cash and Cash Equivalents	3,575	364	(674)	3,265
Cash and Cash Equivalents, Beginning of Year	73,470	1,339	810	75,619
Cash and Cash Equivalents, End of Year	$ 77,045	$ 1,703	$ 136	$ 78,884

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2018
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities				
Operating income	$ 7,272	$ 5,044	$ 169	$ 12,485
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(2,341)	-	-	(2,341)
Provision for losses on loans	2,378	(198)	12	2,192
Debt issuance costs	-	-	-	-
Amortization of intangible asset	1,107	-	-	1,107
Depreciation expense	398	-	-	398
Interest expense on lines of credit and revenue bonds	745	16,363	-	17,108
Interest income on mortgage-backed securities	-	(4,094)	-	(4,094)
Interest income on marketable securities	(22)	(3,754)	(20)	(3,796)
Net decrease in fair value of marketable securities	-	8,080	-	8,080
Other income	-	(377)	-	(377)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(615,379)	(5,437)	-	(620,816)
Repayments on housing mortgage loans	25,066	61,410	-	86,476
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	554,205	-	-	554,205
Housing construction loans	775	-	215	990
Other, net	10,180	297	-	10,477
Net Cash Provided By (Used In) Operating Activities	$ (15,616)	$ 77,334	$ 376	$ 62,094

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

Basis of Presentation: The Corporation's financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and related statements, and are comprised of three components: 1) Corporation-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Corporation-wide financial statements are comprised of a statement of net position and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements reflect all of the assets, liabilities, revenues, expenses, deferred inflows, deferred outflows, gains and losses of governmental and business-type activities. The governmental activities reflect the administration of the various programs for the Commonwealth and the federal government. The business-type activities include single and multi-family loan programs and other lender services. The Corporation follows GASB pronouncements as codified under GASB 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 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 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, while money market funds are carried at amortized cost. 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 $89,092 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.

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

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

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

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

Buildings	30 to 40 years
Equipment	3 to 10 years

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

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

(Continued)

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. There were no debt issuance costs incurred in 2018. 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 and Other Postemployment Benefits ("OPEB"): For purposes of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The Corporation adopted the new GASB accounting standards effective July 1, 2017, with a decrease of $4.3 million in the beginning net position of governmental wide activities and a decrease of $11.1 million in the beginning net position of the business type activities. Within the business type activities, the General Funds beginning net position decreased $8.5 million and the Housing Revenue Bond Fund beginning net position decreased $2.6 million.

- GASB Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The adoption of this statement did not have a significant impact on the Corporation's financial position or results of operations.

GASB standards that are under evaluation include:

- GASB Statement No. 84, *Fiduciary Activities,* is effective for the fiscal year ending June 30, 2020, GASB Statement No. 87*, Leases,* is effective for the fiscal year ending June 30, 2021, GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* is effective for the fiscal year ending June 30, 2019, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* is effective for the year ending June 30, 2021, and GASB Statement No. 90, *Majority Equity Interest,* is effective for the fiscal year ending June 30, 2020. The Corporation has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

(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, 2018, the carrying amount of the Corporation's cash and cash equivalents was $91,467 and the bank balance was $87,062. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $87,062 bank balance, $46,336 was covered by federal depository insurance and $40,726 was collateralized. For the funds collateralized by the financial institutions, the collateral equals or exceeds at least 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 $86,001 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, $12,583 is restricted in governmental activities and $73,419 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, 2018 the Corporation has the following:

Investment Type	Fair Value	Effective Duration (in Years)
U.S. Treasuries	$ 11,146	0.63
U.S. government-sponsored enterprises	144,963	4.68
Mortgage-backed securities	92,804	4.64
Money market funds	68,853	0.00
Total Investment and Mortgage-Backed Securities	317,766	3.51
Less amounts shown as current assets	83,703	
Noncurrent Investment and Mortgage-Backed Securities	$ 234,063	

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, 2018:

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 5% of the Corporation's portfolio at June 30, 2018 consist of the following:

Issuer	Fair Value	Percentage of Portfolio
U.S. government-sponsored enterprises	$ 144,963	46%
GNMA	92,804	29%
Dreyfus	68,649	22%

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 $89,533 as of June 30, 2018. 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, 2018:

	Fair Value Measurements at June 30, 2018 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	$ 11,146	$ 11,146	$ -	$ -
U.S. government-sponsored enterprises	144,963	-	144,963	-
Mortgage-backed securities	92,804	-	92,804	-
Total investments by fair value	248,913	$ 11,146	$ 237,767	$ -
Investments by amortized cost	68,853			
Total investments	$ 317,766			

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, 2018, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$ 418,876
Multifamily (B)	26,449
Total Housing Revenue Bond Funds	445,325
General Funds (C)	113,348
Total Principal	558,673
Add accrued interest receivable on loans	1,658
Total Principal and Accrued Interest	560,331
Less allowance for loan losses	11,428
Net Housing Mortgage Loans	548,903
Less amount shown as current assets	26,011
Noncurrent Housing Mortgage Loans	$ 522,892

(Continued)

(Dollars in thousands)

Note D--Housing Mortgage Loans (Continued)

Additional information related to loans includes:

Note (A) Single-family includes $402,563 in federally insured or guaranteed loans, $12,108 of non-insured loans with initial loan-to-value ratios less than 90%, and $4,205 of loans backed by private mortgage insurance.

Note (B) Multifamily includes $22,394 in federally insured or guaranteed loans and $4,055 in non-insured loans.

Note (C) General Funds include $39,596 in federally insured or guaranteed loans and $73,572 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 $902.

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 $1,397.

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, 2018, the Corporation is committed to make single-family mortgage loans and housing construction loans totaling $85,322 and $4,036, respectively. The Corporation had $101,403 in outstanding commitments to sell single-family loans at June 30, 2018.

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, 2018:

Servicing Type	Number of Loans	Amounts
GNMA mortgage-backed securities	11,037	$ 1,129,109
Fannie Mae mortgage-backed securities	1,027	65,469
Fannie Mae whole loans	4,623	580,018
	16,687	$ 1,774,596

(Continued)

(Dollars in thousands)

Note F-- Loan Servicing (Continued)

Included in Fannie Mae mortgage-backed securities totals are loans totaling $7,990 on which the Corporation has retained full default risk on the underlying loans and additional loans totaling $12,605 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 $218,209 for which the Corporation has retained default risk for the twelve months following the origination date.

Servicing rights totaling $6,262 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, 2018 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, 2017	Additions	Retirements and Dispositions	Balance June 30, 2018
Land	$ 1,089	$ -	$ -	$ 1,089
Buildings	5,363	178	-	5,541
Equipment	4,698	95	(694)	4,099
Less accumulated depreciation	(7,477)	(398)	694	(7,181)
Net Capital Assets	$ 3,673	$ (125)	$ -	$ 3,548

Note H--Lines of Credit

The Corporation's lines of credit at June 30, 2018 and activity during the year follows:

Business-Type Activities	Balance July 1, 2017	Borrowings	Repayments and Dispositions	Balance June 30, 2018
Loan Warehousing Line of Credit 1	$ 12,580	$ 84,030	$ 94,300	$ 2,310
Loan Warehousing Line of Credit 2	14,500	288,623	270,535	32,588
	$ 27,080	$ 372,653	$ 364,835	$ 34,898

Both lines of credit are unsecured and are 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.

(Continued)

(Dollars in thousands)

Note H--Lines of Credit (Continued)

Loan Warehousing Line of Credit 1 provides for borrowings up to $25,000, bears interest based on one-month LIBOR plus 47 basis points (2.60% at June 30, 2018), and matures on June 30, 2019. Loan Warehousing Line of Credit 2 provides for borrowings up to $40,000, bears interest based on one-month LIBOR plus 50 basis points (2.59% at June 30, 2018), and matures on June 30, 2019.

Note I--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2018 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2017	Issued	Repaid/ Retired	Balance June 30, 2018	Amount Due Within One Year
Housing Revenue Bonds:						
2006 Series O:						
2019-2036, variable	$ 29,035	$ 15,305	-	$ 445	$ 14,860	$ 465
2006 Series T:						
2019-2038, variable	23,300	8,355	-	215	8,140	240
2006 Series W:						
2019-2038, variable	38,380	11,930	-	320	11,610	350
2007 Series J:						
2019-2038, variable	17,130	12,740	-	160	12,580	345
2007 Series O:						
2019, variable	10,000	5,930	-	145	5,785	150
2008 Series A	39,270	375	-	375	-	-
2008 Series E	60,000	1,015	-	1,015	-	-
2009 Series B:						
2019-2025, 3.65% to 4.625%	60,000	11,285	-	1,970	9,315	1,235
2009 Series C, Sub series C-4:						
2028-2042, 2.52%	30,000	21,250	-	1,630	19,620	-
2010 Series A:						
2019-2027, 3.25% to 5.00%	40,000	7,350	-	3,235	4,115	2,070
2010 Series B:						
2019-2028, 3.20% to 5.00%	40,000	10,285	-	3,250	7,035	1,830
2010 Series C:						
2028-2034, 4.375% to 4.625%	10,000	5,550	-	140	5,410	-
2010 Series D:						
2019-2021, 4.00% to 4.40%	46,000	12,820	-	3,050	9,770	2,585
2010 Series E:						
2021-2031, 3.625% to 4.50%	20,000	16,380	-	7,455	8,925	-

(Continued)

(Dollars in thousands)

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

	Original Face Amount	Balance July 1, 2017	Issued	Repaid/ Retired	Balance June 30, 2018	Amount Due Within One Year
Housing Revenue Bonds:						
2011 Series A:						
2019-2028, 3.30% to 5.00%	$ 20,000	$ 6,520	$ -	$ 1,340	$ 5,180	$ 730
2011 Series B:						
2019-2028, 2.60% to 4.25%	20,000	9,440	-	3,095	6,345	635
2012 Series A:						
2019-2034, 2.69% to 4.268%	187,755	106,665	-	13,605	93,060	5,215
2013 Series A:						
2041, 3.00%	52,940	28,290	-	4,485	23,805	-
2013 Series B:						
2041, 3.00%	54,920	32,465	-	3,995	28,470	-
2013 Series C:						
2019-2024, 2.05% to 3.520%	36,470	22,520	-	3,585	18,935	1,910
2013 Series D:						
2024-2033, 3.20% to 3.75%	49,410	24,975	-	2,215	22,760	-
2013 Series E:						
2019-2023, 1.80% to 3.05%	7,590	5,330	-	1,155	4,175	760
2014 Series A:						
2019-2034, 1.994% to 4.296%	61,445	50,665	-	6,565	44,100	2,135
2014 Series B:						
2019-2037, 2.178% to 4.097%	30,000	24,355	-	1,595	22,760	540
2016 Series A:						
2019-2040, 1.628% to 3.86%	72,465	68,025	-	6,210	61,815	1,125
2016 Series B:						
2019-2038, 1.50% to 4.00%	41,110	40,075	-	3,370	36,705	1,545
Total Housing Revenue Bonds	$1,097,220	559,895	$ -	$ 74,620	485,275	$ 23,865
Unamortized premium		2,942			2,383	
Net Revenue Bonds		$ 562,837			$ 487,658	

(Continued)

(Dollars in thousands)

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

As indicated in the above table, bond issues totaling $52,975 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, 2018, 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,			
2019	$ 23,865	$ 15,157	$ 39,022
2020	37,900	15,024	52,924
2021	36,265	13,865	50,130
2022	31,700	12,803	44,503
2023	29,110	11,773	40,883
Five years ending June 30,			
2024-2028	105,785	46,625	152,410
2029-2033	100,450	28,373	128,823
2034-2038	55,725	13,923	69,648
2039-2043	64,475	6,585	71,060
	$ 485,275	$ 164,128	$ 649,403

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, 2017	Additions	Reductions	Balance June 30, 2018
Other noncurrent liabilities	$ 13,753	$ 2,301	$ (1,672)	$ 14,382

(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, 2018, conduit debt obligations have been issued for 43 multi-family projects totaling approximately $439,330. 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--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS

Kentucky Employees Retirement System

Plan Description - The Corporation contributes to the Kentucky Employees' Retirement System (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.

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.

Basis of Accounting: For purposes of measuring the net pension and OPEB liabilities, deferred outflow of resources and deferred inflow of resources related to pensions and OPEB, pension and OPEB expense, information about the fiduciary net position of KERS and additions to/deductions from KERS's 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. Investments are reported at fair value.

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

(Continued)

(Dollars in thousands)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

Non-Hazardous

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/13	Tier 3 Participation 1/1/2014
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor	1.97% or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, the COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No month purchased calculations.	
Reduced Retirement Benefit	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

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

Insurance Tier 1: Participation began before 7/1/2003

Benefit Eligibility: Recipient of a retirement allowance

Benefit: The percentage of member premiums paid by the retirement system are dependent on the number of years of service. Benefits also include duty disability retirements, duty death in service, non-duty death in service and surviving spouse of a retiree.

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

Insurance Tier 2: Participation began on or after 7/1/2003, but before 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 120 months of service at retirement

Benefit: The system provides a monthly contribution subsidy of $10 (Non-hazardous) and $15 (Hazardous) for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

Insurance Tier 3: Participation began on or after 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 180 months of service at retirement

Benefit: Tier 3 insurance benefits are identical to Tier 2, except Tier 3 members are required to have at least 180 month of service in order to be eligible.

Contributions: The Corporation is required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation on the 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.

For the fiscal years ended June 30, 2018 and 2017, participating employers in the Plan contributed 49.47% (41.06% allocated to pension and 8.41% allocated to OPEB) and 48.59% (40.24% allocated to pension and 8.35% allocated to OPEB) as set by KRS, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

The Corporation has met 100% of the contribution funding requirement for the fiscal years ended June 30, 2018 and 2017. Total current year contributions recognized by the Plan were $5,879 ($4,880 related to pension and $999 related to OPEB) for the year ended June 30, 2018. The OPEB contributions amount does not include the implicit subsidy reported in the amount of $152.

Members whose participation began before 9/1/2008:

Contributions equal 5% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Member entitled to a full refund of contributions with interest.

Members whose participation began on or after 9/1/2008:

Contributions equal 6%, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

(Continued)

(Dollars in thousands)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

Members whose participation began on or after 1/1/2014:

Contributions equal 6%, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Pension Information

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	2.30%
Salary increases	3.05%, average, including inflation
Payroll growth assumption	0.00%
Investment rate of return	5.25%, 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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

(a) **Discount Rate**: The discount rate used to measure the total pension liability was 5.25%, which was reduced from the 6.75% discount rate used in the prior year.

(b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 26-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 expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

(Continued)

(Dollars in thousands)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

(d) **Municipal Bond Rate**: The discount rate determination does not use a municipal bond rate.

(e) **Periods of Projected Benefit Payments**: The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(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
US Equity	17.50%	5.75%
International Equity	17.50%	7.38%
Global Bonds	10.00%	2.63%
Global Credit	17.00%	3.63%
High Yield	0.00%	5.75%
Emerging Market Debt	0.00%	5.50%
Private Credit	0.00%	8.75%
Real Estate	5.00%	6.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	5.13%
Private Equity	10.00%	8.25%
Cash	3.00%	1.88%
Total	100.00%	5.46%

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 5.25% based on a blending of the factors described above.

(g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Corporation's allocated portion of the net pension liability ("NPL") of the Plan, calculated using the discount rate of 5.25% as well as what the Corporation's allocated portion of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (4.25%) or 1 percentage-point higher (6.25%) than the current rate:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Corporation's allocated portion of net pension liability	$ 117,391	$ 102,815	$ 90,695

<u>Employer's Portion of the Collective Net Pension Liability</u>: The Corporation's proportionate share of the Plan's net pension liability, as indicated in the prior table, is $102,815, or approximately 0.77%. The proportionate share from the prior year was 0.739%. The net pension liabilities were distributed based on 2017 actual employer contributions to the Plan.

(Continued)

(Dollars in thousands)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

Measurement Date: June 30, 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 6.75% to 5.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was reduced from 4.00% to 3.05%
- The payroll growth assumption was reduced from 4.00% to 0.00%.

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

Pension Expense: The Corporation was allocated pension expense of $15,361 related to the Plan for the year ended June 30, 2018.

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. 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. Deferred inflows and outflows as of the Measurement Date include:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 18	$ 662
Changes of assumptions	13,045	-
Net differences between projected and actual earnings on plan investments	1,285	788
Change in proportion and differences between employer contributions and proportionate share of contributions	1,562	626
	15,910	2,076
Employer contributions subsequent to the measurement date	4,880	-
Total	$ 20,790	$ 2,076

(Continued)

(Dollars in thousands)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $4,880 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2019	$ 8,517
2020	5,319
2021	140
2022	(142)
2023	-
Thereafter	-
Total	$ 13,834

<u>Pension Plan Fiduciary Net Position</u>: Detailed information about the pension plans' fiduciary net position is available in the separately issued pension plan financial reports.

OPEB Information

<u>Total OPEB Liability</u>: The total other postemployment benefits plan ("OPEB") was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30%
Salary increases	3.05%, average
Payroll growth rate	0.00%
Investment rate of return	6.25%
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

(Continued)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

Discount rate assumptions:

(a) **Discount Rate:** The discount rate used to measure the total OPEB liability was 5.83%, which was reduced from the 6.90% discount rate used in the prior year.

(b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.

(c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

(d) **Municipal Bond Rate**: The discount rate determination used a municipal bond rate of 3.56% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017.

(e) **Period of Projected Benefit Payments:** Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

(Continued)

(Dollars in thousands)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

(f) **Assumed Asset Allocations**: 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
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	6.56%

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

(g) **Sensitivity Analysis**: This paragraph requires disclosure of the sensitivity of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

The following presents the Corporation's allocated portion of the net OPEB liability of the Plan, calculated using the discount rate of 5.83% as well as what the Corporation's allocated portion of the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.83%) or 1-percentage-point higher (6.83%) than the current rate for Non-hazardous:

	1% Decrease (4.83%)	Current Discount Rate (5.83%)	1% Increase (6.83%)
Corporation's allocated portion of net OPEB liability	$ 22,768	$ 19,475	$ 16,738

(Continued)

(Dollars in thousands)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

The following presents the Corporation's allocated portion of the net OPEB liability of the Plan, calculated using the healthcare cost trend rate of percent, as well as what the the Corporation's allocated portion of the Plan's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for Non-hazardous:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Corporation's allocated portion of net OPEB liability	$ 16,547	$ 19,475	$ 23,151

<u>Employer's Portion of the Collective OPEB Liability</u>: The Corporation's proportionate share of the Plan's net OPEB liability, as indicated in the prior table, is $19,475, or approximately 0.77%. The net pension liabilities were distributed based on 2017 actual employer contributions to the plan.

<u>Measurement Date</u>: June 30, 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

<u>Changes in Assumptions and Benefit Terms</u>: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 6.75% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was reduced from 4.00% to 3.05%.
- The payroll growth assumption was reduced from 4.00% to 0.00%.

<u>Changes Since Measurement Date</u>: There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

<u>OPEB Expense</u>: The Corporation was allocated OPEB expense of $1,932 related to the Plan for the year ended June 30, 2018.

<u>Deferred Outflows and Deferred Inflows</u>: 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 OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. 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. Deferred inflows and outflows as of the Measurement Date include:

(Dollars in thousands)

Note K--Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing – KERS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 24
Changes of assumptions	2,550	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	143
Differences between expected and actual investment earnings on Plan investments	-	252
	2,550	419
Employer contributions subsequent to the measurement date	1,151	-
Total	$ 3,701	$ 419

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $1,151, which include the implicit subsidy reported of $152, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over three to five years with remaining amortization as follows:

Year ending June 30:	
2019	$ 531
2020	531
2021	531
2022	532
2023	6
Thereafter	-
Total	$ 2,131

<u>OPEB Plan Fiduciary Net Position</u>: Detailed information about the OPEB plans' fiduciary net position is available in the separately issued OPEB plan financial reports.

Note L--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, 2018. Settlements have not exceeded insurance coverage.

(Continued)

Note M--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 26, 2018, the date the financial statements were issued.

Note N--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, 2018

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, 2018
(Dollars in thousands)

	2018	2017	2016	2015
Corporation's proportion of the net pension liability	0.77%	0.74%	0.75%	0.79%
Corporation's proportionate share of the net pension liability	$102,815	$ 84,211	$ 75,182	$ 70,519
Corporation's covered payroll	$ 12,125	$ 12,192	$ 12,007	$ 13,011
Corporation's proportionate share of the net pension liability as a percentage of its covered payroll	847.96%	690.71%	626.15%	542.00%
Plan fiduciary net position as a percentage of the total pension liability	13.30%	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.

KENTUCKY HOUSING CORPORATION
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CORPORATION'S EMPLOYER PENSION CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM – NONHAZARDOUS
PRESENTED FOR YEARS INFORMATION IS AVAILABLE
Year Ended June 30, 2018
(Dollars in thousands)

	2018	2017	2016	2015
Actuarially determined required contribution	$ 4,880	$ 4,879	$ 3,760	$ 3,703
Actual pension contributions made	(4,880)	(4,879)	(3,760)	(3,703)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Corporation's covered payroll	$ 11,885	$ 12,125	$ 12,192	$ 12,007
Contributions as a percentage of covered payroll	41.06%	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.

Notes to Required Supplementary Information

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total net pension liability have been updated as follows:

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%.
- The 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%.

2017:

- The assumed investment rate of return was decreased from 6.75% to 5.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was reduced from 4.00% to 3.05%.
- The payroll growth assumption was reduced from 4.00% to 0.00%.

KENTUCKY HOUSING CORPORATION
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CORPORATION'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
KENTUCKY EMPLOYEES RETIREMENT SYSTEM – NONHAZARDOUS
PRESENTED FOR YEARS INFORMATION IS AVAILABLE
Year Ended June 30, 2018
(Dollars in thousands)

	2018
Corporation's proportion of the net OPEB liability	0.77%
Corporation's proportionate share of the net OPEB liability	$ 19,475
Corporation's covered payroll	$ 12,125
Corporation's proportionate share of the net OPEB liability as a percentage of its covered payroll	160.62%
Plan fiduciary net position as a percentage of the total OPEB liability	24.40%

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.

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CORPORATION'S EMPLOYER OPEB CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM – NONHAZARDOUS
PRESENTED FOR YEARS INFORMATION IS AVAILABLE
Year Ended June 30, 2018
(Dollars in thousands)

	2018
Actuarially determined required contribution	$ 999
Actual pension contributions made	(999)
Contribution deficiency (excess)	$ -
Corporation's covered payroll	$ 11,885
Contributions as a percentage of covered payroll	8.41%

Employer contributions do not include the expected implicit subsidy.

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.

Notes to Required Supplementary Information

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

2017:

- The assumed investment rate of return was decreased from 6.75% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was reduced from 4.00% to 3.05%.
- The payroll growth assumption was reduced from 4.00% to 0.00%.

SUPPLEMENTARY COMBINING INFORMATION
HOUSING REVENUE BOND FUNDS

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF NET POSITION
HOUSING REVENUE BOND FUNDS
June 30, 2018
(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	$ 1,583	$ -	$ -	$ -	$ -	$ 120	$ 1,703
Investment securities	7,078	1,894	9,865	15,747	1,852	11,888	48,324
Mortgage-backed securities	3,704	-	-	84	-	-	3,788
Housing mortgage loans	19,081	-	-	-	784	-	19,865
Interfund accounts	(8,661)	4,832	3,539	-	298	(3)	5
Total Current Assets	22,785	6,726	13,404	15,831	2,934	12,005	73,685
Noncurrent Assets							
Investment securities	-	-	-	145,047	-	-	145,047
Mortgage-backed securities	87,039	-	-	1,977	-	-	89,016
Housing mortgage loans	378,063	-	-	-	47,482	-	425,545
Real estate owned and related receivables	616	-	-	-	-	-	616
Total Noncurrent Assets	465,718	-	-	147,024	47,482	-	660,224
Total Assets	488,503	6,726	13,404	162,855	50,416	12,005	733,909
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows related to pension	3,466	-	-	-	-	-	3,466
Deferred outflows related to OPEB	617	-	-	-	-	-	617
Total Deferred Outflows of Resources	4,083	-	-	-	-	-	4,083
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	56	-	-	-	-	-	56
Accrued interest payable	-	-	7,243	-	-	-	7,243
Revenue bonds - current portion	23,865	-	-	-	-	-	23,865
Total Current Liabilities	23,921	-	7,243	-	-	-	31,164
Noncurrent Liabilities							
Revenue bonds	463,793	-	-	-	-	-	463,793
Other noncurrent liabilities	67	-	-	-	-	-	67
Net pension liability	17,139	-	-	-	-	-	17,139
Net OPEB liability	3,247	-	-	-	-	-	3,247
Total Noncurrent Liabilities	484,246	-	-	-	-	-	484,246
Total Liabilities	508,167	-	7,243	-	-	-	515,410
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows related to pension	346	-	-	-	-	-	346
Deferred inflows related to OPEB	70	-	-	-	-	-	70
Total Deferred Outflows of Resources	416	-	-	-	-	-	416
FUND NET POSITION							
Restricted by revenue bond indenture	$ (15,997)	$ 6,726	$ 6,161	$ 162,855	$ 50,416	$ 12,005	$ 222,166

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, 2018
(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	$ 21,868	$ -	$ -	$ -	$ 1,031	$ -	$ -	$ 22,899
Mortgage-backed securities	4,021	-	-	73	-	-	-	4,094
Marketable securities	13	68	80	3,500	14	70	9	3,754
Net increase (decrease) in fair value of securities	(3,706)	-	-	(4,374)	-	-	-	(8,080)
Other income	377	-	-	-	-	-	-	377
Total Operating Revenues	22,573	68	80	(801)	1,045	70	9	23,044
Operating Expenses								
Interest on revenue bonds	-	-	16,363	-	-	-	-	16,363
Provision for losses on loans	(198)	-	-	-	-	-	-	(198)
General and administrative	168	-	-	-	-	-	-	168
Mortgage loan servicers' fees	1,482	-	-	-	185	-	-	1,667
Total Operating Expenses	1,452	-	16,363	-	185	-	-	18,000
Operating Income (Loss)	21,121	68	(16,283)	(801)	860	70	9	5,044
Interfund Transfers	(24,472)	(588)	16,913	-	(2,808)	(70)	4,891	(6,134)
Change in Fund Net Position	(3,351)	(520)	630	(801)	(1,948)	-	4,900	(1,090)
Fund Net Position, Beginning of Year (as restated)	(12,646)	7,246	5,531	163,656	52,364	-	7,105	223,256
Fund Net Position, End of Year	$ (15,997)	$ 6,726	$ 6,161	$ 162,855	$ 50,416	$ -	$ 12,005	$ 222,166

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2018
(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	$ 21,868	$ -	$ -	$ -	$ 1,031	$ -	$ -	$ 22,899
Operating expenses	(1,650)	-	-	-	(185)	-	-	(1,835)
Fundings of housing mortgage loans	(1,193)	-	-	-	(4,244)	-	-	(5,437)
Repayments on housing mortgage loans	56,039	-	-	-	5,371	-	-	61,410
Other, net	(388)	805	45	-	(167)	-	2	297
Net Cash Provided By (Used In) Operating Activities	74,676	805	45	-	1,806	-	2	77,334
Cash Flows From Noncapital Financing Activities								
Principal payments on revenue bonds	-	-	(74,620)	-	-	-	-	(74,620)
Interest payments on revenue bonds	-	-	(17,461)	-	-	-	-	(17,461)
Interfund transfers - loan collections and investment income	(98,455)	58,142	38,960	-	(2,807)	(70)	(9)	(4,239)
Interfund transfers - retirement of debt	1,076	(58,730)	52,754	-	-	-	4,900	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(97,379)	(588)	(367)	-	(2,807)	(70)	4,891	(96,320)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(22,006)	(60,458)	(50,348)	(46,131)	(3,278)	-	(81,432)	(263,653)
Sales of investments and mortgage-backed securities	40,858	60,181	50,598	42,693	4,264	-	76,650	275,244
Interest received on investments and mortgage-backed securities	4,095	60	72	3,438	15	70	9	7,759
Net Cash Provided By (Used In) Investing Activities	22,947	(217)	322	-	1,001	70	(4,773)	19,350
Net Increase (Decrease) in Cash and Cash Equivalents	244	-	-	-	-	-	120	364
Cash and Cash Equivalents, Beginning of Year	1,339	-	-	-	-	-	-	1,339
Cash and Cash Equivalents, End of Year	$ 1,583	$ -	$ -	$ -	$ -	$ -	$ 120	$ 1,703

(Continued)

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2018
(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)	$ 21,121	$ 68	$ (16,283)	$ (801)	$ 860	$ 70	$ 9	$ 5,044
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Provision for losses on loans	(198)	-	-	-	-	-	-	(198)
Debt issuance costs	-	-	-	-	-	-	-	-
Interest expense on revenue bonds	-	-	16,363	-	-	-	-	16,363
Interest income on mortgage-backed securities	(4,021)	-	-	(73)	-	-	-	(4,094)
Interest income on marketable securities	(13)	(68)	(80)	(3,500)	(14)	(70)	(9)	(3,754)
Net decrease in fair value of securities	3,706	-	-	4,374	-	-	-	8,080
Other income	(377)	-	-	-	-	-	-	(377)
Changes in operating assets and liabilities:								
Fundings of housing mortgage loans	(1,193)	-	-	-	(4,244)	-	-	(5,437)
Repayments on housing mortgage loans	56,039	-	-	-	5,371	-	-	61,410
Other, net	(388)	805	45	-	(167)	-	2	297
Net Cash Provided By (Used In) Operating Activities	$ 74,676	$ 805	$ 45	$ -	$ 1,806	$ -	$ 2	$ 77,334

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, 2018 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 26, 2018. Our opinion included an emphasis of matter related to the implementation of GASB Statement *No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions,* which resulted in a restatement of the Board's July 1, 2017 net position of $11.1 million related to the business-type activities ($8.5 million related to the general funds and $2.6 million related to the housing revenue bond funds) and $4.3 million related to the governmental activities. Our opinion is not modified with respect to this matter.

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 LLP

Crowe LLP

Louisville, Kentucky
September 26, 2018