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KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.

AUDITED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED
JUNE 30, 2013

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Mountain Housing Development Corporation, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014, on our consideration of Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hill & Associates

Hill & Associates CPAs, PSC.
Richmond, KY
February 7, 2014

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS

	2013
Cash and cash equivalents	$ 3,179,505
Interest receivable	40,012
Grants receivable	24,950
Notes receivable, net allowance for doubtful accounts $668,250	8,001,567
Investments	816,470
Inventory	276,853
Prepaid expenses	25,617
Construction in progress	109,454
Property and equipment, net	611,136
TOTAL ASSETS	$ 13,085,564

LIABILITIES AND NET ASSETS

Accounts payable	$ 4,506
Accrued expenses	41,069
Client Escrow Payable	59,335
Promissory notes payable	1,160,707
TOTAL LIABILITIES	1,265,617
NET ASSETS	
Unrestricted	11,819,947
Total Net Assets	11,819,947
TOTAL LIABILITIES AND NET ASSETS	$ 13,085,564

The accompanying notes are an integral part of these financial statements.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	2013
REVENUES, RECLASSIFICATIONS AND OTHER SUPPORT	
Contributions	
Individuals and churches	$ 4,808
Non-Federal Grants	
Affordable Housing Trust Fund	37,433
Other non federal grants	58,000
Federal Financial Assistance	65,386
Program service revenues	
Construction receipts	921,695
Rent receipts	27,489
Miscellaneous	18,653
Residential revenue	3,953
Investment return	
Interest income	197,963
Investment earnings	15,171
Unrealized gain	124,061
TOTAL REVENUES, RECLASSIFICATIONS AND OTHER SUPPORT	1,474,612
EXPENSES	
Program Services	1,471,531
Supporting Services	425,971
TOTAL EXPENSES	1,897,502
CHANGE IN NET ASSETS	(422,890)
NET ASSETS BEGINNING OF YEAR	12,242,837
NET ASSETS END OF YEAR	$ 11,819,947

The accompanying notes are an integral part of these financial statements.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	2013
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	$ (422,890)
Adjustment to reconcile change in net assets to net cash provided by operating activities	
Depreciation	22,399
(Increase) decrease in operating assets	
Grants receivable	142,033
Marketable securities	(132,850)
Accounts Receivable	2,524
Interest receivable	5,307
Inventory	148,805
Construction in progress	(56,791)
Prepaid expenses	(12,348)
Prior Period Adjustment	(4,250)
Increase (decrease) in operating liabilities	
Accounts payable	(10,458)
Accrued expenses and other liabilities	30,566
NET CASH (USED) BY OPERATING ACTIVITIES	(287,953)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in notes receivable	(12,507)
Purchase of fixed assets	
NET CASH (USED) BY INVESTING ACTIVITIES	(12,507)
CASH FLOWS FROM FINANCING ACTIVITIES	
Decrease in notes payable	(76,724)
NET CASH (USED) BY FINANCING ACTIVITIES	(76,724)
NET DECREASE IN CASH	(377,184)
CASH AT BEGINNING OF YEAR	3,556,689
CASH AT END OF YEAR	$ 3,179,505
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	$ 12,335

The accompanying notes are an integral part of these financial statements.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	Supporting Services	
	Housing Services	Management & General	Totals
Personnel	$ 129,402	$ 230,018	$ 359,420
Employee benefits			
Medical	8,940	15,894	24,834
Retirement	4,881	8,679	13,560
Payroll taxes	14,846	26,393	41,239
Advertising		50	50
Construction			
Materials	830,112		830,112
Small tools	626		626
Subcontractors	291,128		291,128
Bad Debt Expense	83,365		83,365
Dues and fees	7,675		7,675
Travel and training		2,343	2,343
Depreciation	22,399		22,399
Insurance			
General Liability	16,400	14,625	31,025
Worker's Compensation	11,093		11,093
Interest	11,720	615	12,335
Maintenance of equipment		7,347	7,347
Occupancy			
Building maintenance		7,711	7,711
Utilities		8,680	8,680
Postage		2,348	2,348
Professional services		59,118	59,118
Supplies		2,939	2,939
Telephone and internet		7,352	7,352
Transportation			
Gas and oil	8,876		8,876
Vehicle	1,814		1,814
Treatment and disposal		847	847
Rental Expense		3,632	3,632
Client Insurance Expense	26,213		26,213
Service Fees		7,710	7,710
Miscellaneous	2,041	19,670	21,711
TOTAL EXPENSES	$ 1,471,531	$ 425,971	$ 1,897,502

The accompanying notes are an integral part of these financial statements.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kentucky Mountain Housing Development Corporation, Inc. is a faith-based non-profit corporation whose mission is to provide safe, decent and affordable housing for low and very low income families in Southeastern Kentucky. The organization provides both construction and financing to eligible families.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification, ASC 958-10 *Not-for-Profit Entities*. Under FASB ASC 958-210, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Expense Allocation

Expenses are charged to programs and supporting services based on the use of expenditures. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 180(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Financial Accounting Standards Board (FASB) has issued ASC 740, Accounting for Uncertainty in Income Taxes, which requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain income tax positions as of February 7, 2014. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2009 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Kentucky Mountain Housing Development Corporation, Inc. receives funding from federal, state and other non-profit organizations. The funding can be for a variety of housing programs including forgivable loans, low interest loans, counseling grants, or development programs. Revenue recognition depends on the contracts and grants. Construction management fees and interest income are recognized when earned.

Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by Kentucky Mountain Housing Development Corporation, Inc. with the terms of the grants/contracts.

The Organization recognizes revenues on the completed-contract method. That method is used because the typical contract is completed in two months or less, and financial position and results of operations do not very significantly from those that would result using the percentage-of-completion method. A contract is considered complete when a customer accepts the work.

Donations and Promises to Give

Donations received may be recorded either as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of any donor restrictions.

Donations are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donations that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized.

The Organization uses the allowance method to determine uncollectible, unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Cash and Cash Equivalents

Cash equivalents consist of all demand deposits and highly liquid investments not permanently restricted with an initial maturity date of one year or less. Accordingly, carrying amounts approximate fair value due to their short-term nature.

Investments

The Organization carries investments in equity securities with readily determinable fair market values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gain and losses are included in the change in net assets in the accompanying Statement of Activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory generally consists of houses reacquired by the Organization and is carried at cost plus the cost of any improvements or repairs and is limited to the net realizable value.

Allowance for Uncollectible Loans

The Organization has not had sufficient experience with bad debts to establish a policy. The Organization considers loans receivable to be fully collectible. Additionally, the Organization treats all forgivable deferred loans as bad debts due to the terms of the loans.

Fixed Assets

Kentucky Mountain Housing Development Corporation, Inc. follows the practice of capitalizing all expenditures for property, furniture, fixtures and office equipment in excess of $500. Depreciation has been calculated on each class of depreciable property using the straight-line method over the estimated useful lives of the assets as follows:

Office Equipment	5 years
Leasehold Improvements	15 years
Buildings	40 years

Fixed assets are stated at cost. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for that period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Contributed Services

Services contributed to the Organization are recorded at fair market value by the donor. The contributed services are recorded as income and expensed in the same period. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Subsequent Events

Management of the Organization has considered subsequent events through February 7, 2014, the date this report becomes available for issue.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2013 the carrying amount of the Organization's cash and cash equivalents was $3,179,505. The Organization maintains its cash balance with several financial institutions in Southeastern Kentucky. From time to time, the Organization's cash balances may exceed federally insured limits. The Organization considered the risk associated with excess cash balances to be minimal.

NOTE 3 – NOTES RECEVABLE

A portion of the notes receivable represents balances which are forgiven that are set for a period of years that are stated in the loan agreement. These loans are considered to be forgiven when the agree-upon number of years has expired. Forgivable loans at June 30, 2013 were $ 550,175.

The composition of recorded investment in loans by segment is as follows:

Homeownership-Amortized:

These loans are used to assist customers in obtaining affordable housing. These loans have a 30 to 33 year maximum term. The interest rate varies upon affordability for each customer depending on the circumstances. The interest rate may vary from 1 to 3% depending on verified income of customers. At June 30, 2013, our maximum interest rate is 3%, but the minimum interest rate is 1%.

Homeownership-Forgivable:

There are circumstances where the housing cannot be affordable to the customer without some type of grant to the customer or some type of forgivable loan involved. Kentucky Mountain Housing Corporation, Inc. will always add subsidy to each house according to the affordability gap. Typically, up to 35% may be granted to each unit. Some organizations, such as Kentucky Housing Corporation or Rural Development provide funds and will allow those funds to be either granted or forgiven over a period of time(generally 5 to 10 years) in order to assist a customer with affordability.

Home Repair Loans-Amortized:

These loans are used to assist customers in making home repair improvements to their homes. These types of repair/improvements could take the form of heating, air conditioning, new roof, vinyl siding, room addition (in the case of overcrowding in the unit), plumbing, and wiring.

By making the improvements, the customers save money on their utility bills which in turn make their existing housing more affordable. The terms of these loans vary and are usually carry a 1 to 2 % interest rate.

Home Repair Loans-Forgivable:

Some organizations provide funds that may be in the form of a grant or may take the form of a forgivable loan. The loan may be forgiven over a period of time (generally 5-10 years) in order to allow the customer to make necessary improvements to their homes. Again, these types of repair/improvements could take the form of heating, air conditioning, vinyl siding, room additions, plumbing and wiring. As with the Home Repair Loans which are amortized, the improvements made with the Home Repair Loan-Forgivable program allow the customers to save money on utility bills which in turn make the existing home more affordable.

NOTE 3 – NOTES RECEVABLE (CONTINUED)

The treatment of these loan segments is consistent with the By-laws and Policies and Procedures adopted by Kentucky Mountain Housing Corporation, Inc.

Notes receivable consisted of the following at June 30, 2013:

Homeownership Amortized	$ 7,594,726
Homeownership Forgivable	481,006
Home Repairs Amortized	524,916
Home Repairs Forgivable	69,169
Total	$ 8,669,817
Less allowance for loan losses	668,250
Notes receivable, net of allowance	$ 8,001,567

ALLOWANCE FOR LOAN LOSSES

Kentucky Mountain Housing Corporation, Inc. has established a methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in their loan portfolio. For purposes of determining the allowance for loan losses, Kentucky Mountain Housing Corporation, Inc. segments the forgivable loans separate from all other loans in its loan portfolio. The loans are segmented into the following categories: forgivable and all other loans.

The allowance for forgivable loans is equal to 100% of all outstanding forgivable loans.

The allowance for all other loans is based upon a percentage of all other loans overdue at the ending of any given period. The percentages have been determined based upon historical data (an average for the last four years) for Kentucky Mountain Housing Development Corporation, Inc.'s loan collections and delinquencies.

- Loans 60-89 days delinquent are reserved at 5.61%
- Loans 90-119 days delinquent are reserved at 7.56%
- Loans 120-180 days delinquent are reserved at 12.20%

Kentucky Mountain Housing Development Corporation, Inc. has also taken into account any properties conveyed back to the organization via foreclosure or deed in lieu as an additional component of the allowance for loan losses. The Organization's Loan Committee and Board of Directors reviews property listings, appraised values of properties, and the total value of investment that Kentucky Mountain Housing Development has, and makes additional reserves when necessary in order to account for losses on those properties.

NOTE 3 – NOTES RECEVABLE (CONTINUED)

LOANS BY SEGMENT

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. Kentucky Mountain Housing Development Corporation, Inc. considers the allowance for loan losses of $ 668,250 adequate to cover loan losses inherent in the loan portfolio as of June 30, 2013. The following table presents, by portfolio segment, the changes in the allowance for loan losses.

Allowance for Loan Losses
For the Year Ended June 30, 2013

	Homeownership-Amortized	Homeownership-Forgivable	Home Repairs-Amortized	Home Repairs-Forgivable	Totals
Beg. Balance	$ 60,055	$ 463.888	$ 9,480	$ 51,462	$ 584.885
Charge-Offs					
Forgiven		17,118		17,707	
Recoveries					
New Loans					
Provision	$ 27,286		21,254		
End. Balance	$ 87,341	$ 481,006	$ 30,734	$ 69,169	$ 668,250

CREDIT QUALITY INFORMATION

The following table represents credit exposures by creditworthiness category. Kentucky Mountain Housing Development Corporation, Inc. uses FICO credit scores to determine an applicant's credit worthiness. After the loan is made, there is no further review of these scores. The following table represents management's estimate of the FICO scores of applicants as a percentage of the total portfolio.

FICO Score	Percentage
800 +	5%
750-799	5%
650-749	5%
600-649	75%
Below 599	10%

NOTE 3 – NOTES RECEVABLE (CONTINUED)

NONPERFORMING LOANS

Kentucky Mountain Housing Development Corporation, Inc. considers any loan as nonperforming when days delinquent exceed 180 days or the loan has been modified in a Troubled Debt Restructuring.

AGE ANALYSIS OF PAST DUE FINANCING RECEIVABLE BY CLASS

The following table shows an aging analysis of the recorded investment of past due loans receivables as of June 30, 2013.

	60+ days	90+days	120+days	Total Past	Current	Total Loans Receivable
Homeownership-Amortized	474,854	275,990	262,077	1,012,921	6,581,805	7,594,726
Home Repairs-Amortized	11,566	23,225	34,157	68,948	455,968	524,916
Homeownership-Forgivable					481,006	481,006
Home Repairs-Forgivable					69,169	69,169
Totals	486,420	299,215	296,234	1,081,869	7,587,948	8,669,817

IMPAIRED LOANS

Kentucky Mountain Housing Development Corporation, Inc. considers a loan impaired when, based on current information and events, management determines that the organization will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination is the same across all classes of loans. When a loan is identified as impaired the measure of impairment is determined by calculating the present value of future cash flows, discounted at the loan's effective interest rate, except when the sole remaining source of the repayment for the loan is the operation of the collateral. In these cases, Kentucky Mountain Housing uses the fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If it is determined that the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an increase to the allowance. Kentucky Mountain Housing Development Corporation, Inc. determines impairment based on a 180 day default period and all loans that are subject to Troubled Debt Restructuring. The organization had 8 impaired loans as of June 30, 2013. These loans were over 180 days delinquent with a principal balance of $89,473.

NOTE 4 – NET ASSETS

Organizations may have certain contractual or other limitations placed on the use of net assets other than those resulting from donor-imposed restrictions. If the limitations or restrictions on net assets do not relate to donor stipulations, the net assets are unrestricted. Certain government grants that are exchange transactions may have restrictions limiting the organization's use of the funds. If there are restrictions related to these exchange transactions, the associated net assets are unrestricted because the restrictions are imposed by the other party to the exchange, not by a donor.

Exchange transactions are reciprocal transfers in which each party receives and gives up something of value. Exchange transactions that give rise to revenues typically involve an organization's efforts to provide goods or services to its members, clients or customers. Revenues for these transactions are recorded in the financial statements when the amounts are realized (convertible into cash) and when earned (activities prerequisite to obtaining benefits have been completed). The organization considers all grant revenue received to be exchange transactions.

NOTE 5 – PROMISSORY NOTES PAYABLE

Promissory notes payable as of June 30, 2013 consisted of the following:		2013
Red Bird Missionary Conference, Inc. unsecured, 90 day notice	$	24,989
Jackson County Bank, due December 2, 2018, bearing 2% interest; secured by Certificates of Deposit totaling $150,000		63,825
Note payable to an individual, non interest bearing, due January 1, 2013; unsecured		10,000
Notes payable to various charitable organizations, bearing interest up to 1% payable annually, with principal amounts due at various dates through June 4, 2014; unsecured		150,000
Jackson County Bank, due December 18, 2020, bearing interest of 2%; secured by Certificates of Deposit totaling $150,000		83,385
Kentucky Housing Corporation, bearing interest at 1% and due in annual principal amounts ranging from $3,000 to $12,630, due at various dates through July 1, 2016; unsecured.		43,500
The Housing Foundation, Inc., due in annual installments of $1500, non-interest bearing, due March 1, 2016		6,000
The Federation of Housing Enterprises, Inc., interest at 1%, payable quarterly, with annual principal payments ranging from $3,437 to $6,485, due at various dates through June 15, 2025		411,084
Kentucky Housing Corporation – Affordable Housing Trust Fund, interest at 1%, payable monthly and quarterly, with annual principal payments ranging from $609 - $5,559 due at various dates through July 1, 2034		367,924
Total	$	1,160,707

NOTE 5 – PROMISSORY NOTES PAYABLE (CONTINUED)

The principal repayment requirements at June 30, 2013 relating to the above notes payable are as follows:

2014	$ 173,698
2015	116,115
2016	110,541
Later Years	760,353
Total	$ 1,160,707

NOTE 6 – RETIREMENT PROGRAM

The Organization participates in a Tax Shelter Annuity Retirement Program ("Program") covering all eligible employees. The Organization makes contributions of 4 percent of annual employee compensation, provided the employee contributes 50 percent of the employer portion. Contributions are deposited into an investment account in the names of participating employees. Contributions to the Program for the year ended June 30, 2013 amounted to $13,560. The Organization has no further obligations beyond the annual contributions.

NOTE 7 – PROPERTY AND EQUIPMENT

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	July 1, 2012	Additions	June 30, 2013
Land	$ 136,819	$	$ 136,819
Buildings and improvements	652,586		652,586
Equipment	334,518		334,518
Total at historical cost	1,123,923		1,123,923
Less: Accumulated Depreciation			
Buildings and improvements	208,185	16,737	224,922
Equipment	282,203	5,662	287,865
Total accumulated depreciation	490,388	22,399	512,787
Capital assets – net	$ 633,535	$ (22,399)	$ 611,136

NOTE 8 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments held by the Organization consisted of the following as of June 30, 2013:

The Brethren Foundation – Balanced Fund	$ 282,612
The Brethren Foundation – Domestic Stock Fund	477,172
The Brethren Foundation – International Stock Core Fund	56,686
Total	$ 816,470

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1- Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable whether directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require in puts that are both unobservable and significant to the overall fair value measurement.

The Organization's fair value of securities available for sale measured on a recurring basis at June 30, 2013 was as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2013	Fair Value	Quoted Prices In Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Brethren Balanced Fund	$ 282,612	$	$	$ 282,612
Brethren Domestic Fund	477,172			477,172
Brethren International Stock Core Fund	56,686			56,686
Total	$ 816,470	$	$	$ 816,470

NOTE 8 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Available-for-Sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

July 1, 2012	$ 683,619
Total gains and losses – unrealized	
Included in earnings	132,851
Included in other comprehensive income	
June 30, 2013	$ 816,470

Fair value for investments is determined by reference to quoted market prices and other relevant information generated by market transactions. There have been no changes in valuation techniques and related inputs.

NOTE 9 – INVENTORY (FORECLOSED ASSETS)

Inventory consists of houses reacquired by the Organization and is carried at cost plus the cost of any improvements or repairs and is limited to the net realizable value.

Schedule of changes in inventory for the fiscal year ended June 30, 2013 was as follows:

Balance June 30, 2012	Additions	Sales or Write-downs	Balance June 30, 2013
$ 425,658		$ (148,805)	$ 276,853

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kentucky Mountain Housing Development Corporation, Inc.'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 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 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

Hill & Associates

Hill & Associates CPAs, PSC
Richmond, KY

February 7, 2014