KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
MANCHESTER, KENTUCKY
* * * * *
AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
JUNE 30, 2014

CRAFT, NOBLE & COMPANY
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, Kentucky

We have audited the accompanying statement of financial position of Kentucky Mountain Housing Development Corporation, Inc. (a non-profit organization) which comprise the statement of financial position as of June 30, 2014, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibilities 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 an opinion 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 opinion.

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, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 18, as required by Office of Management and Budget Circular A-133 Audits of States, Local

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Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 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* in considering Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting and compliance.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
September 12, 2014

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

		2014
Cash and cash equivalents	$	1,163,477
Interest receivable		40,440
Grants receivable		92,510
Accounts receivable		-
Notes receivable, net of allowance for doubtful accounts $1,538,473		8,117,463
Investments		3,005,914
Inventory		226,162
Prepaid expenses		14,253
Construction in progress		40,329
Property and equipment, net		582,434
TOTAL ASSETS	$	13,282,982

LIABILITIES AND NET ASSETS

Accounts payable	$	6,925
Accrued expenses		36,477
Client escrow payable		51,697
Promissory notes payable		1,068,702
TOTAL LIABILITIES		1,163,801
NET ASSETS		
Unrestricted		9,413,486
Temporarily restricted		2,705,695
Total Net Assets		12,119,181
TOTAL LIABILITIES AND NET ASSETS	$	13,282,982

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, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUES, RECLASSIFICATIONS AND OTHER SUPPORT			
Contributions			
Individuals and churches	$ 5,344	$ -	$ 5,344
Non-Federal Grants			
Affordable Housing Trust Fund	-	36,100	36,100
Other non federal grants	-	95,172	95,172
Federal Financial Assistance	-	575,271	575,271
Program service revenues			
Construction receipts	1,136,026	-	1,136,026
Rent receipts	25,527	-	25,527
Miscellaneous	19,813	-	19,813
Residential revenue	2,947	-	2,947
Investment return			
Interest income	173,451	-	173,451
Investment Income	15,209	-	15,209
Unrealized gain	174,528	-	174,528
Restrictions satisfied by expiration of time restrictions	474,621	(474,621)	-
TOTAL REVENUES, RECLASSIFICATIONS AND OTHER SUPPORT	2,027,466	231,922	2,259,388
EXPENSES			
Program Services	1,534,009	-	1,534,009
Supporting Services	426,145	-	426,145
TOTAL EXPENSES	1,960,154	-	1,960,154
CHANGE IN NET ASSETS	67,312	231,922	299,234
NET ASSETS BEGINNING OF YEAR	9,346,174	2,473,773	11,819,947
NET ASSETS END OF YEAR	$ 9,413,486	$ 2,705,695	$ 12,119,181

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

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2014

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	$ 299,534
Adjustment to reconcile change in net assets to net cash provided by operating activities	
Depreciation	28,701
(Increase) decrease in operating assets	
Grants receivable	(67,560)
Marketable securities	(2,189,444)
Interest receivable	(428)
Inventory	10,362
Construction in progress	109,459
Prepaid expenses	11,364
Increase (decrease) in operating liabilities	
Accounts payable	54,114
Accrued expenses and other liabilities	121,073
NET CASH (USED) BY OPERATING ACTIVITIES	(1,622,825)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in notes receivable	(116,196)
NET CASH (USED) BY INVESTING ACTIVITIES	(116,196)
CASH FLOWS FROM FINANCING ACTIVITIES	
Decrease in notes payable	(277,007)
NET CASH (USED) BY FINANCING ACTIVITIES	(277,007)
NET (DECREASE) IN CASH	(2,016,028)
CASH AT BEGINNING OF YEAR	3,179,505
CASH AT END OF YEAR	$ 1,163,477
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	$ 8,157

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, 2014

	Program Services	Supporting Services	
	Housing Services	Management & General	Totals
Personnel	$ 111,181	$ 197,654	$ 308,835
Employee benefits			
Medical	26,229	46,628	72,857
Retirement	11,942	21,229	33,171
Payroll taxes	30,395	54,036	84,431
Advertising	-	978	978
Construction			
Materials	606,316	-	606,316
Small tools	678	-	678
Subcontractors	317,201	-	317,201
Bad Debt Expense	50,313	-	50,313
Dues and fees	3,865	-	3,865
Travel and training	-	1,113	1,113
Depreciation	28,701	-	28,701
Insurance			
General Liability	18,283	16,214	34,497
Worker's Compensation	12,436	-	12,436
Interest	7,749	408	8,157
Forgivable loan expense	281,441	-	281,441
Maintenance of equipment	-	6,527	6,527
Occupancy			
Building maintenance	-	3,333	3,333
Utilities	-	10,336	10,336
Postage	-	2,271	2,271
Professional services	-	35,085	35,085
Supplies	-	3,731	3,731
Telephone and internet	-	8,457	8,457
Transportation			
Gas and oil	9,717	-	9,717
Vehicle	728	-	728
Treatment and disposal	-	550	550
Rental Expense	-	5,441	5,441
Client Insurance Expense	16,374	-	16,374
Service Fees	-	5,724	5,724
Volunteer expense	-	-	-
Miscellaneous	460	6,430	6,890
TOTAL EXPENSES	$ 1,534,009	$ 426,145	$ 1,960,154

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

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 958-205, Not-for-Profit Entities, Presentation of Financial Statements. Under ASC 958-205, 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 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Organization is not aware of any unrelated business income as of June 30, 2014. In Accounting Standards Codification (ASC) 740-10-50, *Income Taxes*, (formerly FIN 48, *Accounting for Uncertainty in Income Taxes*) the Financial Accounting Standards Board (FASB) requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain tax positions that would require adjustment to the financial statements. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to income tax examination by the U.S. federal, state or local tax authorities for years before 2011.

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 vary significantly from those that would result using the percentage-of-completion method. A contract is considered complete when a customer accepts the work.

Contributions and Promises to Give

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions 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. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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 has adopted ASC 958-320, Not-for-Profit Entities, Investments – Debt and Equity Securities. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values, which are established by quoted market prices at year-end. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Certificates of deposits are carried at cost, which approximates fair market value.

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 and land that is to be used for future home sites. The balance at June 30, 2014 amounted to $226,162.

Allowance for Uncollectible Loans

It is the policy of the Organization to provide valuation allowances for estimated loan losses. The allowance for loan losses represents management's best estimate of future bad debts. Additions to the allowance are charged to earnings. Accounts written off are charged against the allowance. Recoveries are credited to the allowance reserve.

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 all 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 September 12, 2014, the date this report becomes available for issue.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2014 the carrying amount of the Organization's cash and cash equivalents was $1,163,477. 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 RECEIVABLE

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 agreed-upon number of years has expired. Forgivable loans at June 30, 2014 were $1,370,084.

The composition of the 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, 2014, 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 110 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 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 maybe 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, new roof, vinyl siding, room addition, 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 RECEIVABLE (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, 2014:

Homeownership Amortized	$ 7,753,779
Homeownership Forgivable	1,172,856
Home Repairs Amortized	532,073
Home Repairs Forgivable	197,228
Total	$ 9,655,936
Less allowance for loan losses	1,538,473
Notes receivable, net of allowance	$ 8,117,463

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 tits 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 the 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 the 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 RECEIVABLE (CONTINUED)

LOANS BY SEGMENT

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Organization considers the allowance for loan losses of $1,538,742 adequate to cover loan losses inherent the loan portfolio as of June 30, 2014. The follow table presents, by portfolio segment, the changes in allowance for loan losses.

Allowance for Loan Losses
For the Year Ended June 30, 2014

	Homeownership-Amortized	Homeownership-Forgivable	Home Repairs-Amortized	Home Repairs-Forgivable	Totals
Beg. Balance	$ 158,746	$ 1,036,373	$ 30,734	$ 154,603	$ 1,380,456
Charge-Offs	-	-	-	-	-
Forgiven	-	93,125	-	9,208	102,333
Recoveries	-		26,479	-	26,479
New Loans	-	229,608	-	51,833	281,441
Provision	5,388	-	-	-	5,388
End. Balance	$ 164,134	$ 1,172,856	$ 4,255	$ 197,228	$ 1,538,473

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, 2014.

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 of 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 the 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, 2014. These loans were over 180 days delinquent with a principal balance of $167,315

	60+ Days	90+ Days	120+ Days	Total Past Due	Current	Total Loans Receivable
Homeownership - Amortized	$ 519,033	$ 206,307	$ 312,328	$ 1,037,668	$ 6,518,882	$ 7,556,550
Home Repairs - Amortized	-	28,137	17,438	45,575	486,498	532,073
Homwownership - Forgivable	-	-	-	-	1,172,856	1,172,856
Home Repairs - Forgivable	-	-	-	-	197,228	197,228
Totals	$ 519,033	$ 234,444	$ 329,766	$ 1,083,243	$ 8,375,464	$ 9,655,935

NOTE 5 – PROMISSORY NOTES PAYABLE

Promissory notes payable as of June 30, 2014 consisted of the following:

		2014
Red Bird Missionary Conference, Inc., unsecured, matures with 90 day notice	$	25,000
Jacskon County Bank, due December 2, 2018, bearing 2% interest; secured by Certificates of Deposit totaling $150,000.		53,733
Note payable to an individual, non interest bearing, due January 1, 2015 ; unsecured		10,000
Jackson County Bank, due December 18, 2020, bearing 2% interest; secured by Certificates of Deposit totaling $150,000.		72,903
Kentucky Housing Corporation, bearing interest at 1% with annual principal amounts of $15,000 due at various dates through July 1, 2016.		37,500
The Housing Foundation, Inc., due in annual installments of $1,500, non-interest bearing, due March 1, 2016.		4,500
The Federation of Appalachian Houisng Enterprises, Inc., interest at 1% payable monthly with annual principal payments of $42,334; maturity date June 15, 2025.		325,284
Kentucky Housing Corporation - Affordable Housing Trust Fund, interest at 1%, payable monthly and quarterly, with annual principal payments between $671 and $6,020 due at various dates through July 1, 2043.		389,782
Notes payable to various charitable organizations, bearing interest up to 1% payable annually, with principal amounts due at various dates through August 2018.		150,000
Total	$	1,068,702

NOTE 5 – PROMISSORY NOTES PAYABLE (CONTINUED)

The principal repayment requirements at June 30, 2014 relating to the above notes payable are as follows:

2015	$	135,833
2016		101,708
2017		94,854
2018		136,511
2019		191,431
Later Years		408,365
Total	$	1,068,702

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, 2014 amounted to $33,171. 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, 2014 was as follows:

	July 1, 2013	Additions	June 30, 2014
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	224,922	1,549	226,471
Equipment	287,865	27,153	315,018
Total accumulated depreciation	512,787	28,702	541,489
Capital assets – net	$ 611,136	$ (28,702)	$ 582,434

NOTE 8-INVESTMENT AND FAIR VALUE MEASUREMENTS

Investments held by the Organization consisted of the following as of June 30, 2014:

The Brethern Foundation Balanced Fund	$	331,442
The Brethern Foundation Domestic Stock Fund		602,535
The Brethern Foundation International Stock Core Fund		66,505
Certificates of Deposit		2,005,432
Total Investments	$	3,005,914

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 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). If the inputs used to measure the financial instruments fall within different levels of 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 value 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 model whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing model 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 inputs that are other 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, 2014 was as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2014	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Brethern Balanced Fund	$ 331,442	$ -	$ -	$ 331,442
Brethern Domestic Stock Fund	602,535	-	-	602,535
Brethern International Stock Core Fund	66,505			66,505
Certificates of Deposit	2,005,432	-	2,005,432	-
	$3,005,914	$ -	$ 2,005,432	$ 1,000,482

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):

June 30, 2013	$ 816,470
Total gains and losses - unrealized	
Included in earnings	184,012
Included in other comprehensive income	-
June 30, 2014	$ 1,000,482

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.

Certificates of deposit are valued at their face value.

NOTE 9 - INVENTORY

Inventory consists of houses reacquired by the Organization and is carried at cost plus the cost of any improvements or repairs and land that is to be used for future home sites. Inventory is limited to the net realizable value.

Schedule of changes in inventory for the fiscal year ended June 30, 2014 was as follows:

Balance June 30, 2013	Additions	Sales or Write-downs	Balance June 30, 2014
$ 276,853	$ 95,832	$ (146,523)	$ 226,162

NOTE 10 – LITIGATION

The Organization is subject to one legal proceeding. Currently the proceedings are still in the pleading and discovery stage and at this time a loss contingency cannot be determined.

NOTE 11 – RESTATEMENT OF PRIOR PERIOD NET ASSETS

During the current year the Organization discovered that the prior period net assets restrictions were misstated due to donor restrictions not being recognized in the financial statements. As a result a transfer was made from the beginning of year unrestricted net assets to the beginning of year temporarily restricted net assets in the amount of $2,473,773.

SUPPLEMENTAL INFORMATION

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Department of Housing & Urban Development			
Passed through Kentucky Housing Corporation (KHC)			
Home Investment Partnership Program (HOME)	* 14.239	HB12-0103-01	155,000
Home Investment Partnership Program (HOME)	* 14.239	HB13-0103-01	444,943
Subtotal passed through KHC			599,943
Total Department of Housing & Urban Development			599,943
Department of Agriculture			
Rural Housing Preservation Grants	10.433		12,180
Total Deapartment of Agriculture			12,180
Appalachian Regional Commission			
Passed through Kentucky Housing Corporation			
Appalachian Regional Development	23.001		12,000
Total Appalachian Regional Commission			12,000
TOTAL FEDERAL AWARDS			$ 624,123

* Major Program Circular A-133

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kentucky Mountain Housing Development Corporation, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

NOTE B – INSURANCE

The Organization carried insurance coverage during the entire year in amounts sufficient to or in excess of required levels, including coverage for general and professional liability, real and personal property, workers compensation and fidelity bonding of employees who have access to funds.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, 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 in contained in *Government Auditing* Standards issued by the Comptroller General of the United States, the financial statements of Kentucky Mountain Housing Development Corporation, Inc. (a non-profit organization) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Mountain Housing Development Corporation, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Mountain Housing Development Corporation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 combination of control 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 over 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 a material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency, 2014-01.

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*.

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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 result of the testing, and not to provide an opinion on the effectiveness of the organization's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, KY
September 12, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Kentucky Mountain Housing Development Corporation, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Kentucky Mountain Housing Development Corporation, Inc.'s major federal programs for the year ended June 30, 2014. Kentucky Mountain Housing Development Corporation, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Kentucky Mountain Housing Development Corporation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kentucky Mountain Housing Development Corporation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Kentucky Mountain Housing Development Corporation, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Kentucky Mountain Housing Development Corporation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Kentucky Mountain Housing Development Corporation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kentucky Mountain Housing Development Corporation, Inc. internal control over

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compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kentucky Mountain Housing Development Corporation, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
September 12, 2014

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Kentucky Mountain Housing Development Corporation, Inc.

2. Our report on the financial statements disclosed no significant deficiencies in the internal control structure.

3. No instances of noncompliance material to the financial statements of Kentucky Mountain Housing Development Corporation, Inc. were disclosed during our audit.

4. The auditor's report on compliance for the major federal awards programs for Kentucky Mountain Housing Development Corporation, Inc. expresses an unqualified opinion on all major federal programs.

5. Our audit report disclosed no audit finding required to be reported under Section 510(a) of OMB Circular A-133.

6. The programs tested as major programs included:

   Home Investment Partnership Program (HOME) CFDA #14.239 Type A.

7. The threshold to determine Type A: $300,000.

8. Kentucky Mountain Housing Development Corporation, Inc. was determined to be a high-risk auditee.

9. In connection with tests of internal control and compliance with laws and regulations, no material weaknesses were noted in internal control, and the Organization was in substantial compliance with laws and regulations.

10. There were no questioned costs with respect to major programs selected for compliance tests.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2014-01	Criteria:	Proper understanding of Generally Accepted Accounting Principles
	Condition:	The Organization did not meet the requirements for proper net asset classification under ASC 958-210-05-2.
	Effect:	Due to not meeting the requirements of ASC 958-210-05-2 the Organization's beginning net assets had to be restated to reflect the proper classifications.
	Cause:	The organization had no one on staff or contracted that was familiar with these requirements.
	Recommendation:	We recommend that the Organization become familiar with the requirements of ASC 958-210-05-2 and implement control procedures to ensure compliance.
	Management's Response:	Management understands the need for compliance with ASC 958-210-05-2 and has implemented tracking procedures to ensure that net assets are properly classified and presented.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
FINAL STATEMENT OF PROGRAM REVENUES AND EXPENSES
HOUSING PRESERVATION GRANT #18
PERIOD OF PERFORMANCE: SEPTEMBER 20, 2012 THROUGH JUNE 30, 2014

		Actual Revenue and Expenses(1)			Audit Results	
Revenues:	**Budget**	**Cumulative Through June 30, 2013**	**Current Year**	**Revenues and Expenses Claimed**	**Revenues and Expenses Accepted**	**Questioned Costs**
Federal received	$ 40,000	$ 6,500	$ -	$ 6,500	$ 40,000	$ -
Federal receivable	-	21,320	12,180	33,500	-	-
Deferred or unexppended	-	-		-	-	-
Applied to program	-	-	-	-	-	-
Total revenues	40,000	27,820	12,180	40,000	40,000	-
Expenses:						
Services	-	-	-	-	-	-
Repaires/rehabilitation expense	37,200	26,000	11,200	37,200	37,200	-
Contractual administrative expenses	2,800	1,820	980	2,800	2,800	-
Total expenses	40,000	27,820	12,180	40,000	40,000	-
REVENUES OVER (UNDER) EXPENSES	$ -	$ -	$ -	$ -	$ -	$ -

Matching funds used for repairs/rehabilitation not included in the above schedule:

Source:	Amount
KMHDC Home Loan Fund	$ 63,050
KMHDC Discretionary Funds	57,270
TOTAL	$ 120,320

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
FINAL STATEMENT OF PROGRAM REVENUES AND EXPENSES
HOUSING PRESERVATION GRANT #18
PERIOD OF PERFORMANCE: SEPTEMBER 20, 2012 THROUGH JUNE 30, 2014

1. The total amount of RHS/HPG funds used for repairs/rehabilitation. **$37,200**

2. The total amount of leveraged funds (matching money) from all sources used for repairs/rehabilitation. This item will include the value of the donated materials and labor and should be denoted as a subtotal. **$120,319.78**

3. The total amount of RHS/HPG funds and leveraged funds (matching money) spent for materials. This is required when the Grantee is performing the rehabilitation work. **$105,126.79**

4. The total amount of RHS/HPG funds and leveraged funds (matching money) spent for labor. This is required when the Grantee is performing the rehabilitation work. **$23,025.62**

5. The total amount of RHS/HPG funds used for administration purposes. **$2,800**

6. The actual costs as requested in the five (5) items listed above, should never be confused with the amount of the contract executed by the individual home owner with the Grantee.

7. Where the work is being performed by the Grantee, the cost of employee fringe benefits and program overhead, etc.; that is being charged by the Grantee to the actual repair/rehab job must be reported. RHS would like to know the exact items that are being charged in this category. **Fringe: $8,954.42, Overhead: $12,091.38**

See auditor's report on page 1 - 2.