KENTUCKY HOUSING CORPORATION

FINANCIAL STATEMENTS
JUNE 30, 2021

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June 30, 2021

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, the fiduciary funds 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, 2021, 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.

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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, the fiduciary activities and each major fund of the Corporation, as of June 30, 2021, 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, 2021, the Corporation has elected to change the measurement date for the Corporation's Pension and OPEB plans, which resulted in a restatement of June 30, 2020 net position in the amount of $4,401,000. This was a decrease to the June 30, 2020 net position. As discussed in Note L, the Corporation subsequently announced a cessation of the Pension and OPEB plans. Our opinion is not modified with respect to these matters.

Other Matters

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 42 through 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated September 30, 2021 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 the effectiveness of the Corporation's 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 30, 2021

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, 2021. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Company-wide net position increased $74.4 million, resulting from an increase in net position attributable to the Corporation's business-type activities of $40 million and an increase of $34.4 million attributable to the Corporation's governmental activities, primarily from pandemic related grant revenues to be expended in future years.

- Single family loan originations for the year totaled $521.0 million, a slight decrease from the prior year level. With nearly all originations being delivered into the secondary market, the Corporation realized record net cash trading gains in excess of $33.7 million, a $10.6 million increase over the prior year, and fee income totaling $1.4 million, about the same as the prior year.

- Despite the aforementioned loan production levels, the Corporation's single-family loan portfolio decreased by $119.2 million, or 4.2%, as the Corporation experienced record loan payoffs in the face of record low interest rates. Servicing fee revenues also declined due to the portfolio decrease as well as from the accumulation of payments not received due to portfolio-wide loan forbearance in effect during the pandemic. The portfolio remains of a size able to generate a steady source of future operating revenue. Consistent with prior year strategies, with nearly all the Corporation's loan originations being delivered into the secondary market, total single-family loans within the indenture decreased by $48.9 million to $279.2 million at June 2021.

- During 2021, the Corporation was tagged to administer several components of the CARES Act, CRRSA and ARPA to assist renters, landlords, homeowners and the homeless maintain or obtain suitable housing opportunities in the face of the COVID19 pandemic. These programs necessitated the hiring of dozens of temporary employees and redeployment of existing staff and resources within the Corporation in return for administrative fee income which positively impacted net proprietary income by an estimated $.5 million. The programs have sunset provisions extending into 2025 as the nation continues to provide funding for sustainable housing opportunities.

- As a result of the Corporation ceasing participation in the Kentucky Employee Retirement System defined benefit plan effective June 30, 2021 and adopting a replacement defined contribution pension plan effective July 1, 2021, the financial statements reflect a one-time increase in total net position of $29.8 million. Refer to Note L within the Corporation's financial statements for additional information.

- Overall, the Corporation increased proprietary operating income $32.1 million (when measured before changes in fair value of marketable securities), which in addition to the impacts of the above discussions, resulted primarily from decreases of $1.1 million in estimated loan losses, $2.2 million in default-related servicing costs and $.4 million in pandemic limited travel, training and conference expenses, offset by a decrease of $4.5 million in net interest margin.

Overview of the Financial Statements

The financial statements consist of four parts – this management's discussion and analysis, the basic financial statements, the notes to the financial statements, and supplementary combining information. The

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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 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.

- Fiduciary funds are funds that the Corporation holds as a trustee or agent on behalf of an outside party that cannot be used to support the Corporation's own programs. The Corporation holds borrowers escrow funds and replacement reserve accounts.

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 Healthy at Home Eviction Relief program ("Healthy at Home Eviction Relief"). 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

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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 20-24.

The Statement of Activities shows the financial performance of each significant governmental and business-type activity operated by the Corporation over the past year. The revenues and expenses associated with each activity are shown as well as a net amount showing whether revenues exceeded expenses. The net revenue of all governmental activities (after transfers) results in an increase (decrease) in the fund net position that is to be expended for program purposes. The net revenue of all business-type activities results in an increase in the Fund Net Position of the Corporation. The Corporation's overall net position increased by $74.4 million for the year ended June 30, 2021. Fiscal year 2020 balances, in Table 1, have not been restated to adjust for the Corporation's adoption of GASB Statement No. 84 on July 1, 2020. The Table below has been restated for the accounting method change related to the defined benefit plans effective June 30, 2020. 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	
	Restated 2021	2020	Restated 2021	2020	Restated 2021	2020
Current assets	$ 88.8	$ 27.7	$ 233.4	$ 258.2	$ 322.2	$ 285.9
Non-current assets	-	-	566.6	597.7	566.6	597.7
Total Assets	88.8	27.7	800.0	855.9	888.8	883.6
Total Deferred Outflows of Resources	-	3.5	-	9.2	-	12.7
Current liabilities	68.2	9.2	155.3	118.2	223.5	127.4
Non-current liabilities	-	32.2	240.0	372.7	240.0	404.9
Total Liabilities	68.2	41.4	395.3	490.9	463.5	532.3
Total Deferred Inflows of Resources	-	3.7	-	9.4	-	13.1
Net Position:						
Invested in capital assets	-	-	3.4	3.6	3.4	3.6
Restricted	20.6	18.5	268.6	254.4	289.2	272.9
Unrestricted	-	(32.4)	132.7	106.8	132.7	74.4
Net Position	$ 20.6	$ (13.9)	$ 404.7	$ 364.8	$ 425.3	$ 350.9

The net position of the governmental activities increased from ($13.9) million to $20.6 million. All assets of the Corporation's governmental activities are externally restricted for program purposes. Total assets subject to immediate disbursement are reflected as current liabilities and remaining assets are reflected as restricted net position. The increase in net position indicates that revenues received from governmental activities exceeded program grants, operating expenditures, and transfers.

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The net position of the Corporation's business-type activities increased from $364.8 million to $404.7 million as a result of total revenues of $87.6 million, total program expenses of $14.6 million, and transfers out from government operations of $30 million, for a net increase in net position of business-type activities of $43 million. Comparisons in the changes in net position between fiscal years 2021 and 2020 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	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Revenues						
Operating revenues	$ 15.0	$ 10.3	$ 86.9	$ 89.8	$ 101.9	$ 100.1
Operating grants	304.5	199.9	.7	.6	305.2	200.5
Total Revenues	319.5	210.2	87.6	90.4	407.1	300.6
Program Expenses						
HOME program	12.1	11.4	-	-	12.1	11.4
Weatherization assistance	5.3	4.7	-	-	5.3	4.7
Rental assistance	171.3	166.9	-	-	171.3	166.9
Healthy at Home Eviction Relief	42.1	-	-	-	42.1	-
Other federal and state programs	30.3	25.5	-	-	30.3	25.5
Administrative	-	-	(19.2)	11.8	(19.2)	11.8
Bond financed loan programs	-	-	12.3	13.6	12.3	13.6
Loan servicing	-	-	6.2	8.4	6.2	8.4
Other loan and housing credit programs	-	-	15.3	20.8	15.3	20.8
Total Program Expenses	261.1	208.5	14.6	54.6	275.7	263.1
Excess before transfers	58.4	1.7	73.0	35.8	131.4	37.5
Interfund transfers in (out)	30.0	(3.2)	(30.0)	3.2	-	-
Increase (Decrease) in Net Position	$ 88.4	$ (1.5)	$ 43.0	$ 39.0	$ 131.4	$ 37.5

Total revenues for governmental activities were $266.9 million during fiscal year 2021, a $56.7 million increase from the $210.2 million in revenues in fiscal year 2020. The increase was due to a $52 million increase in operating grants and a $4.7 million increase in charges for services. Fiscal year 2021 operating grants include federal funding for Rental Assistance of $166.5 million, HOME of $11.2 million, Healthy at Home Eviction Relief Fund of $38.3 million, and Weatherization of $4.7 million, which represent 88% of total operating grant revenues.

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The Corporation receives fees or charges for services for federal program administration. These revenues increased from $10.3 million in 2020 to $15 million during fiscal year 2021. 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 2021, $15 million in fee revenue was received and $11.3 million in operating expenses were incurred thereby enabling a $3.7 million transfer out, a $.5 million increase from the $3.2 million transferred in 2020. Business-Type activities administrative expenses were a negative amount due to a credit to pension expense resulting from the pension cessation process. Also, a $33.7 transfer-in is attributed to the exit of the KERS defined benefit plan. The net transfers totaled $30 million.

Program expenses for governmental activities increased during 2021 by $52.6 million. Program expenses for governmental activities during 2021 were $261.1 million, comprised of grants of $249.8 million and operating expenses of $11.3 million. In fiscal 2020, total program expenses were $208.5 million with grants of $200.4 million and operating expenses of $8.1 million.

Total revenues for business-type activities were $87.6 million during fiscal year 2021, a $2.8 million decrease from the $90.4 million of revenues in fiscal year 2020. For fiscal 2021, gross gains on the sale of loans held for sale increased $10.2 million, interest earnings from loans, mortgage-backed securities and other investments decreased $8.6 million, fees, charges and other income increased $.7 million and the change in fair value of securities decreased $5.1 million.

Program expenses for business-type activities decreased $40 million from $54.6 million in 2020 to $14.6 million in 2021. Bond financed loan program expenses decreased by $1.3 million, administrative expenses, or expenses not directly attributable to programs decreased by $31 million, loan servicing expenses decreased by $2.2 million and other loan program expenses decreased 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 $73 million in 2021 compared to $35.8 million in 2020, an increase of $37.2 million. As described above and in additional detail under “Proprietary Funds,” the increase is due to a $2.8 million decrease in revenues and a $40 million decrease in expenses. Transfers-out were $30 million in 2021, a $33.2 million decrease from 2020. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities change in net position of $4 million.

Fund Financial Statements

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

Governmental Funds – Pages 17 through 19

Each of the columns presented in the governmental funds financial statements represents an independent program operated by the Corporation. A description of each program can be found under Note A of the “Notes to Financial Statements.” Other Housing Funds include several independent programs, each of which does not meet the criteria for separate financial reporting.

The current assets of each governmental fund are held pending disbursement for program purposes. Most program disbursements are in the form of a grant or subsidy to program recipients. However, certain disbursements under the Affordable Housing Trust Fund and the HOME 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, 2021, the Corporation retained $88.8 million of total assets for program purposes and had $68.2 million reflected as program liabilities resulting in a total of $20.6 million reflected as restricted fund balances for program purposes.

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During fiscal year 2021, the Affordable Housing Trust Fund had revenues greater than expended funds of $.1 million, thereby increasing the program's fund net position. Rental Assistance revenues of $174.9 million were expended for programs and $3.7 million was transferred to the proprietary funds. Similarly, all HOME program revenues, $12.1 million, were expensed in an equal amount in 2021, as were Weatherization revenues of $5.3 million. Revenues of the Healthy at Home Eviction Relief program of $42 million were expensed in 2021. Finally, Other Housing Funds revenues exceeded expenses by $1.9 million, thereby increasing the fund net position of Other Housing Funds.

Proprietary Funds – Pages 20 through 24

A significant portion of the Corporation's financial resources and activities is reported in the proprietary fund financial statements. Proprietary funds account for approximately 90% of corporate assets, 85% of non-grant revenues, 54% 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 65% of the total assets, 16% of total revenues, and 64% 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.

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Fiscal year 2020 balances, in Table 3, have not been restated to adjust for the Corporation's adoption of GASB Statement No. 84 on July 1, 2020. The Table below has been restated for the accounting method change related to the defined benefit plans effective June 30, 2020. Condensed financial information from the Statement of Net Position follows in Table 3.

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

	2021	2020	Change
Program-Purpose Assets:			
Mortgage loans and real estate owned	$ 414.0	$ 461.0	$ (47.0)
Mortgage-backed securities	32.0	56.0	(24.0)
Housing construction loans	1.5	2.7	(1.2)
Other loans	3.6	4.3	(0.7)
Total Program-Purpose Assets	451.1	524.0	(72.9)
Cash and Investments	295.7	275.2	20.5
Loans held for sale	38.8	42.7	(3.9)
Other assets	14.4	14.0	0.4
Total Assets	800.0	855.9	(55.9)
Total Deferred Outflows of Resources	-	9.2	(9.2)
Bonds payable	246.7	289.6	(42.9)
Net pension and OPEB cessation payable	90.0	82.8	7.2
Other liabilities	58.6	118.5	(59.9)
Total Liabilities	395.3	490.9	(95.6)
Total Deferred Inflows of Resources	-	9.4	(9.4)
Fund Net Position	$ 404.7	$ 364.8	$ 39.9

Total program-purpose assets at June 30, 2021 were $451.1 million. Mortgage loans, mortgage-backed securities, housing construction loans and other loans decreased by $72.9 million or 14% during 2021. The decrease was the result of program loan fundings of $44.3 million, program loan repayments of $87.2 million, sales of loans of $6 million, plus a net decrease in mortgage-backed securities of $24 million, resulting from normal amortization and prepayments totaling $22.3 million, and changes in fair value and premium amortization netting to $1.7 million. This decrease in program assets reflects the Corporation's continued delivery of single-family loan originations into the secondary market.

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The Debt Service Reserve Fund maintains deposits to provide additional security and a source of liquidity to bond investors. Deposits must be maintained at the level required under the Corporation's bond indenture. At June 30, 2021, the Debt Service Reserve requirement was $44.2 million and the amount on deposit was $177.5 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 $133.3 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 2021, the Corporation incurred line of credit borrowings in the amount of $142.2 million. Total bond and line-of-credit principal repayments were $186.3 million and the change in net unamortized bond premium was $.4 million. As a result of this activity, bonds outstanding decreased $42.9 million and short-term debt decreased by $1.6 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)

	2021	2020	Change
Interest income on loans	$ 21.5	$ 25.2	$ (3.7)
Interest income on mortgage-backed securities	0.2	2.4	(2.2)
Interest income on marketable securities	0.7	3.4	(2.7)
Increase (decrease) in fair value of securities	(1.7)	3.4	(5.1)
Gains on sales of loans held for sale	48.3	38.1	10.2
Fees, charges and other income	18.6	17.9	0.7
Total operating revenues	87.6	90.4	(2.8)
Interest expense on revenue bonds and lines of credit	7.8	11.9	(4.1)
Provision for loan losses	0.3	1.4	(1.1)
General and administrative	(8.6)	25.9	(34.5)
Loan origination costs	12.8	13.2	(0.4)
Other expenses	2.3	2.2	0.1
Total operating expenses	14.6	54.6	(40.0)
Operating income	73.0	35.8	37.2
Interfund transfers out	(30.0)	3.2	(33.2)
Changes in Fund Net Position	$ 43.0	$ 39.0	$ 4.0

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The change in fund net position increased by $4 million in 2021, compared to a $6.2 million increase for 2020. The $4 million increase is attributable to several factors. Interest income on loans, mortgage-backed securities and marketable securities decreased $8.6 million, from $31 million in 2020 to $22.4 million in 2021. Gains on sales of loans held for sale increased $10.2 million, from $38.1 million in 2020 to $48.3 million in 2021. The change in fair value of investment securities decreased by $5.1 million, from $3.4 million in 2020 to ($1.7) million in 2021. Fees, charges and other income increased $.7 million, from $17.9 million in 2020 to $18.6 million in 2021.

Interest expense on revenue bonds and lines of credit decreased $4.1 million, from $11.9 million in 2020 to $7.8 million in 2021. The provision for loan losses decreased $1.1 million, from $1.4 million in 2020 to $.3 million in 2021. General and administrative expenses decreased $34.5 million, from $25.9 million in 2020 to ($8.6) million in 2021 driven by the cessation of participation in the KERS plans. Loan origination costs decreased $.4 million, from $13.2 million in 2020 to $12.8 million in 2021.

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs, increased $.1 million, from $2.2 million in 2020 to $2.3 million in 2021.

Finally, changes in fund net position were impacted by interfund transfers of ($30) million, a $33.2 million decrease from transfers of $3.2 million in 2020. The significant change in transfers is due to the $33.7 million transfer of pension and OPEB unrestricted fund balance from business-unit to governmental fund balance. The cessation of participation in the KERS plans is the reason for this transfer. (See “Governmental Funds” for additional information on interfund transfers.)

Financial Outlook

The COVID-19 pandemic continues to present monumental challenges to the health and well-being of the entire globe and the continuing economic and social repercussions are on a scale not experienced in generations. It is unclear whether fiscal and monetary initiatives will be successful in reducing the impact sufficiently to prevent worldwide recession or depression. The Corporation has been tasked with providing relief to many Kentuckians who have been adversely affected by the pandemic, ranging from increased rental assistance including utility assistance, eviction prevention and increased homelessness prevention to mortgage loan forbearance, loan modification, loan payment assistance and homeowner utility payment assistance. Significant funding has been provided by numerous federal relief initiatives for both the direct relief to those impacted and for the administrative costs of managing the process. The impact of this significant increase in activity will be increased expenditures with corresponding increases in administrative fees in the Governmental Functions/Activities portion areas of the Corporation. Years of prudent resource management and preservation has assisted the Corporation in its response to the pandemic. Management believes the Corporation has sufficient expertise and resources to deliver the assistance necessary to weather this emergency, though clearly many uncertainties and considerable challenges remain. The personal safety of our employees remains paramount. Most staff are continuing to work remotely until such time as operating from the Corporation’s campus can be more safely resumed.

Though recent developments at the national level are clearly pandemic-related, Corporation management remains watchful for developments accompanying the change in Administration in Washington that could foreshadow fundamental 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

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mitigate negative impacts and support positive impacts of such changes. Though there has been some modest activity in the status of the Project Based Contract Administration contract with HUD, there is not yet a long-term solution to this vital program. The loss of, or significant negative changes to the financial opportunities of this contract, would have a negative impact on the Corporation’s operating results.

Management also remains watchful of the impact of the various initiatives on interest rates. Prevailing low interest rates, again largely an impact of the pandemic and financial stimulus provided by the Federal Reserve, continue to create both opportunities and challenges. The costs of the Corporation’s variable rate bonds are at historic lows, thereby improving interest margins in the indenture, but low rates also limit the earning power of the Corporation’s investable funds. Low rates have also made homeownership in general more affordable and stimulated significant numbers of loan payoffs due to refinancing, resulting in erosion of the Corporation’s loan servicing revenue stream, but not necessarily causing corresponding increases in the number of first-time homebuyers, the population the Corporation serves. The current rate environment and the possibility of changes in borrower behavior reminds management to monitor conditions continuously and react quickly and appropriately to protect Corporate resources. Management, in concert with the Corporation’s financial partners, continually considers strategies to take maximum advantage of market conditions.

Management continues to believe that given the current interest rate environment and market execution of the Corporation’s sales of single-family loans into the secondary market, that utilizing the Secondary Market Mortgage Purchase program will be the primary funding source for single-family loans for the immediate future. As such, the bond indenture portfolio continues to shrink resulting in decreasing net interest income. 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, recognizing that the net income generated by that portfolio will continue to decrease, due both to its shrinking size as well as lower yields available as higher yielding investments mature, and will be replaced by secondary market trading gains, loan servicing income and the investment of cash generated therefrom. With almost all the Corporation’s single-family loan originations now possible only with Corporation supplied 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 remains a top priority.

The Corporation’s historic concentration on U.S. 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. With the recent uptick in default rates, primarily the result of the pandemic, the Corporation may experience loss rates greater than in recent years. The expiration of the many loan forbearance programs instituted in response to the pandemic will subject the Corporation and its borrowers to even additional challenges to preserve current homeownership. Management is mindful that other unexpected economic disruptions could subject the Corporation to increased losses, as well. Additional information on the Corporation’s single-family portfolio, mortgage-backed securities investments, allowance for loan losses and loan servicing can be found in Notes C, D, E and F in the “Notes to Financial Statements.”

The Corporation has maintained its dedicated effort to increase its presence in the multi-family housing market with the aim to more effectively deploy available resources, including low-income housing tax credits and conduit bond techniques, to maximize the number of families impacted, both with new construction and preservation of existing properties. Participation in these efforts continues to increase, benefitting both the

(Continued)

families served and generating income opportunities, as these initiatives have been favorably received by our housing partners throughout the Commonwealth. Increasing the number of affordable multi-family housing units is a natural complement to the Corporation's history of providing single-family financing and helps stretch our mission dollar to reach the maximum number of the Commonwealth's population in need.

As mentioned earlier, the Corporation has ceased participation in the KERS defined benefit plan. Effective July 1, 2021 all eligible employees began participation in the Kentucky Housing Corporation Defined Contribution Plan, a plan similar in structure to a 401(k) plan. By ceasing participation in the KERS plan the Corporation will no longer be exposed to investment performance risk and resulting increased cost exposure or be limited to benefit structures over which the Corporation has no control. The new plan has also eliminated mandatory employee contributions in favor of voluntary employee contributions and allows for matching and discretionary contributions by the Corporation. Management believes the new plan is more competitive with prevailing retirement benefits and participation options currently offered in the private sector with which the Corporation competes in recruiting talent. During fiscal year 2022, the Corporation will fund its portion of the unfunded actuarial liability of the old plan, estimated at approximately $90 million, and begin funding the employer portion of the new plan at a significantly lower funding rate.

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, finding safe shelter/housing for Kentucky's special needs citizens or especially in today's troubled times being ready to assist in delivering much needed aid to those adversely impacted by the pandemic. The Corporation has served the Commonwealth for nearly 50 years through numerous economic cycles by respecting the necessity for prudent resource management 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, 2021. 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, 2021
(Dollars in thousands)

	Governmental Activities	Business-Type Activities	Combined Totals
ASSETS			
Current Assets			
Cash and cash equivalents	$ 70,143	$ 61,667	$ 131,810
Investment securities	16,772	99,555	116,327
Mortgage-backed securities	-	1,616	1,616
Housing mortgage loans held for sale	-	38,812	38,812
Housing mortgage loans	-	25,591	25,591
Housing construction loans	-	1,457	1,457
Other loans	-	368	368
Accounts receivable and other assets	1,998	4,191	6,189
Interfund accounts	(145)	145	-
Total Current Assets	88,768	233,402	322,170
Noncurrent Assets			
Investment securities	-	134,509	134,509
Mortgage-backed securities	-	30,416	30,416
Housing mortgage loans	-	388,388	388,388
Other loans	-	3,235	3,235
Real estate owned-net and related receivables	-	16	16
Capital assets	-	3,394	3,394
Other noncurrent assets	-	6,632	6,632
Total Noncurrent Assets	-	566,590	566,590
Total Assets	88,768	799,992	888,760
LIABILITIES			
Current Liabilities			
Lines of credit	-	6,300	6,300
Accounts payable and other liabilities	15,572	3,034	18,606
Unearned pass-through grant revenues	52,590		52,590
Net Pension and OPEB cessation payable		90,000	90,000
Accrued interest payable	-	3,557	3,557
Escrows and project reserves	-	29,907	29,907
Revenue bonds, due within one year	-	22,535	22,535
Total Current Liabilities	68,162	155,333	223,495
Noncurrent Liabilities			
Revenue bonds, due after one year	-	224,155	224,155
Other noncurrent liabilities	-	15,788	15,788
Total Noncurrent Liabilities	-	239,943	239,943
Total Liabilities	68,162	395,276	463,438
NET POSITION			
Net investment in capital assets	-	3,394	3,394
Restricted by			
Revenue bond indenture	-	259,990	259,990
Enabling legislation	-	8,593	8,593
Program requirements	20,606	-	20,606
Unrestricted	-	132,739	132,739
Net Position	$ 20,606	$ 404,716	$ 425,322

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
CORPORATION-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2021
(Dollars in thousands)

Functions/Activities	Direct Expenses		Program Revenues		Net (Expense) Revenues and Changes in Net Position		
	Grants	Operating	Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
HOME program	$ 11,226	$ 830	$ 830	$ 11,226	$ -	$ -	$ -
Weatherization assistance	4,734	563	563	4,735	1	-	1
Rental assistance	166,547	4,715	8,416	166,547	3,701	-	3,701
Healthy at Home Eviction Relief	38,347	3,771	3,771	38,347	-	-	-
Other federal and state housing programs	28,967	1,384	1,384	31,054	2,087	-	2,087
Total Governmental Activities	249,821	11,263	14,964	251,909	5,789	-	5,789
Business-Type Activities							
Administrative	1,158	(20,355)	777	-	-	19,974	19,974
Bond financed loan programs	-	12,341	14,371	-	-	2,030	2,030
Loan servicing	-	6,148	11,196	-	-	5,048	5,048
Other loan and housing credit programs	-	15,286	60,596	660	-	45,970	45,970
Total Business-Type Activities	1,158	13,420	86,940	660	-	73,022	73,022
Total Activities	$ 250,979	$ 24,683	$ 101,904	$ 252,569	5,789	73,022	78,811
Transfers					29,978	(29,978)	-
Change in Net Position					35,767	43,044	78,811
Net Position, Beginning of Year					(15,161)	361,672	346,511
Net Position, End of Year					$ 20,606	$ 404,716	$ 425,322

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2021
(Dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Healthy at Home Eviction Relief Fund	Weatherization Assistance	Rental Assistance	Homeowner Assistance	Other Housing Funds	Combined Totals
ASSETS								
Current Assets								
Cash and cash equivalents	$ 2,312	$ 7,328	$ 49,288	$ -	$ 1,169	$ 8,545	$ 1,501	$ 70,143
Investment securities	12,383	-	-	-	-	-	4,389	16,772
Accounts receivable and other assets	-	502	-	571	-	-	925	1,998
Interfund accounts	-	(81)	-	(91)	256	-	(229)	(145)
Total Current Assets	14,695	7,749	49,288	480	1,425	8,545	6,586	88,768
Noncurrent Assets								
Program loans	24,471	110,449	-	-	-	-	66,285	201,205
Less loan loss provision	(24,471)	(110,449)	-	-	-	-	(66,285)	(201,205)
Total Noncurrent Assets	-	-	-	-	-	-	-	-
Total Assets	$ 14,695	$ 7,749	$ 49,288	$ 480	$ 1,425	$ 8,545	$ 6,586	$ 88,768
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	$ 71	$ 7,739	$ 5,242	$ 479	$ 1,425	$ -	$ 616	$ 15,572
Unearned pass-through grant revenues	-	-	44,045	-	-	8,545	-	52,590
Total Current Liabilities	71	7,739	49,287	479	1,425	8,545	616	68,162
FUND BALANCE								
Restricted by program requirements	14,624	10	1	1	-	-	5,970	20,606
Total Liabilities and Fund Balance	$ 14,695	$ 7,749	$ 49,288	$ 480	$ 1,425	$ 8,545	$ 6,586	$ 88,768

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION – GOVERNMENTAL FUNDS
Year Ended June 30, 2021
(Dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Healthy at Home Eviction Relief Fund	Weatherization Assistance	Rental Assistance	Homeowner Assistance	Other Housing Funds	Combined Totals
Revenues								
Federal and state administrative fees	$ -	$ 830	$ 3,772	$ 563	$ 8,416	$ -	$ 1,383	$ 14,964
Pass-through grant revenues	5,084	11,226	38,347	4,735	166,547	-	25,971	251,910
Total Revenues	5,084	12,056	42,119	5,298	174,963	-	27,354	266,874
Expenditures								
General and administrative	-	830	3,771	563	4,715	-	1,385	11,264
Pass-through grant expenditures	4,943	11,226	38,347	4,734	166,547	-	24,024	249,821
Total Expenditures	4,943	12,056	42,118	5,297	171,262	-	25,409	261,085
Revenues in Excess of Expenditures	141	-	1	1	3,701	-	1,945	5,789
Interfund Transfers	-	-	-	-	(3,701)	-	-	(3,701)
Change in Fund Balance	141	-	1	1	-	-	1,945	2,088
Fund Balance, Beginning of Year	14,483	10	-	-	-	-	4,025	18,518
Fund Balance, End of Year	$ 14,624	$ 10	$ 1	$ 1	$ -	$ -	$ 5,970	$ 20,606

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, 2021
(Dollars in thousands)

Net changes in fund balances - total governmental funds	$	2,088
Transfer of fund balance from business-type fund		33,679
Change in net position of governmental activities	$	35,767

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2021
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
ASSETS				
Current Assets				
Cash and cash equivalents	$ 59,417	$ 586	$ 1,664	$ 61,667
Investment securities	40,031	59,052	472	99,555
Mortgage-backed securities	-	1,616	-	1,616
Housing mortgage loans held for sale	38,812	-	-	38,812
Housing mortgage loans	9,813	15,778	-	25,591
Housing construction loans	-	-	1,457	1,457
Other loans	368	-	-	368
Accounts receivable and other assets	4,191	-	-	4,191
Interfund accounts	(4,875)	20	5,000	145
Total Current Assets	147,757	77,052	8,593	233,402
Noncurrent Assets				
Investment securities	-	134,509	-	134,509
Mortgage-backed securities	-	30,416	-	30,416
Housing mortgage loans	113,015	275,373	-	388,388
Other loans	3,235	-	-	3,235
Real estate owned-net and related receivables	16	-	-	16
Capital assets	3,394	-	-	3,394
Other noncurrent assets	6,632	-	-	6,632
Total Noncurrent Assets	126,292	440,298	-	566,590
Total Assets	274,049	517,350	8,593	799,992

(Continued)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2021
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
LIABILITIES				
Current Liabilities				
Lines of credit	$ 6,300	$ -	$ -	$ 6,300
Accounts payable and other liabilities	2,921	113	-	3,034
Net Pension and OPEB cessation payable	83,000	7,000	-	90,000
Accrued interest payable	-	3,557	-	3,557
Escrows and project reserves	29,907	-	-	29,907
Revenue bonds	-	22,535	-	22,535
Total Current Liabilities	122,128	33,205	-	155,333
Noncurrent Liabilities				
Revenue bonds	-	224,155	-	224,155
Other noncurrent liabilities	15,788	-	-	15,788
Total Noncurrent Liabilities	15,788	224,155	-	239,943
Total Liabilities	137,916	257,360	-	395,276
NET POSITION				
Net investment in capital assets	3,394	-	-	3,394
Restricted by				
Revenue bond indenture	-	259,990	-	259,990
Enabling legislation	-	-	8,593	8,593
Unrestricted	132,739	-	-	132,739
Net Position	$ 136,133	$ 259,990	$ 8,593	$ 404,716

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2021
(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	$ 6,580	$ 14,839	$ 103	$ 21,522
Mortgage-backed securities	-	189	-	189
Marketable securities	5	716	-	721
Net decrease in fair value of securities	-	(1,735)	-	(1,735)
Gains on sales of loans held for sale	48,258	-	-	48,258
Fees, charges and other income	18,321	324	-	18,645
Total Operating Revenues	73,164	14,333	103	87,600
Operating Expenses				
Interest on revenue bonds and lines of credit	247	7,528	-	7,775
Provision for losses on loans	285	-	-	285
General and administrative	(8,806)	225	-	(8,581)
Housing assistance grants	1,158	-	-	1,158
Mortgage loan servicers' fees	63	1,117	-	1,180
Loan origination costs	12,761	-	-	12,761
Total Operating Expenses	5,708	8,870	-	14,578
Operating Income (Loss)	67,456	5,463	103	73,022
Interfund Transfers	(39,428)	9,450	-	(29,978)
Change in Net Position	28,028	14,913	103	43,044
Net Position, Beginning of Year	108,105	245,077	8,490	361,672
Net Position, End of Year	$ 136,133	$ 259,990	$ 8,593	$ 404,716

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2021
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 6,582	$ 14,839	$ 103	$ 21,524
Gain on sales of loans held for sale	46,510	-	-	46,510
Fees, charges and other income	20,159	-	-	20,159
Personnel costs	(19,661)	-	-	(19,661)
Operating expenses	(12,657)	(1,342)	-	(13,999)
Housing assistance grants	(1,158)	-	-	(1,158)
Fundings of housing mortgage loans	(582,423)	(104)	-	(582,527)
Repayments on housing mortgage loans	65,911	52,063	-	117,974
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	515,062	-	-	515,062
Net changes in housing construction loans	-	-	1,213	1,213
Other, net	(549)	119	-	(430)
Net Cash Provided By Operating Activities	37,776	65,575	1,316	104,667
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit	142,200	-	-	142,200
Principal payments on revenue bonds and line of credit	(143,775)	(42,515)	-	(186,290)
Interest payments on lines of credit and revenue bonds	(247)	(8,579)	-	(8,826)
Changes in escrows and project reserves	5,015	-	-	5,015
Interfund transfers	7,301	(3,600)	-	3,701
Net Cash Provided By (Used In) Noncapital Financing Activities	10,494	(54,694)	-	(44,200)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(124)	-	-	(124)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(927,927)	(355,503)	-	(1,283,430)
Sales of investments and mortgage-backed securities	903,766	343,758	-	1,247,524
Interest received on investments and mortgage-backed securities	5	955	-	960
Net Cash Provided By (Used In) Investing Activities	(24,156)	(10,790)	-	(34,946)
Net Increase (Decrease) in Cash and Cash Equivalents	23,990	91	1,316	25,397
Cash and Cash Equivalents, Beginning of Year	35,427	495	348	36,270
Cash and Cash Equivalents, End of Year	$ 59,417	$ 586	$ 1,664	$ 61,667

(Continued)

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2021
(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	$ 34,576	$ 5,463	$ 103	$ 40,142
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(1,749)	-	-	(1,749)
Provision for losses on loans	285			285
Debt issuance costs	-	-	-	-
Amortization of intangible asset	1,296	-	-	1,296
Depreciation expense	298	-	-	298
Interest expense on lines of credit and revenue bonds	247	7,528	-	7,775
Interest income on mortgage-backed securities	-	(189)	-	(189)
Interest income on marketable securities	(5)	(716)	-	(721)
Net (increase) in fair value of marketable securities	-	1,735	-	1,735
Other income	-	(324)	-	(324)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(582,423)	(104)	-	(582,527)
Repayments on housing mortgage loans	65,911	52,063	-	117,974
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	515,062	-	-	515,062
Housing construction loans		-	1,213	1,213
Other, net	4,278	119	-	4,397
Net Cash Provided By Operating Activities	$ 37,776	$ 65,575	$ 1,316	$ 104,667

Noncash transactions associated with the pension include removal of net pension and OPEB liability of $130.7 million, removal of deferred outflows of $17.7 million, removal of deferred inflows of $6.8 million, and establishment of the net pension and OPEB payable associated with the ceased participation of $90 million.

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF FIDUCIARY FUNDS NET POSITION
Year Ended June 30, 2021
(Dollars in thousands)

	Custodial Funds
ASSETS	
Current Assets	
Cash and cash equivalents	$ 62,346
Total Assets	62,346
LIABILITIES	
Current Liabilities	
Accounts payable and other liabilities	147
Escrows and project reserves	1,510
Total Liabilities	1,657
NET POSITION	
Restricted by	
Individuals and organizations	60,689
Unrestricted	-
Net Position	$ 60,689

See Notes to Financial Statements

KENTUCKY HOUSING CORPORATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2021
(Dollars in thousands)

	Custodial Funds
ADDITIONS	
Escrows and project reserves	$ 121,682
Total Additions	121,682
DEDUCTIONS	
Payments of property tax to other governments, insurance premiums, and replacement reserve disbursements	122,650
Total Deductions	122,650
Change in Net Position	(968)
Net Position, Beginning of Year	61,657
Net Position, End of Year	$ 60,689

See Notes to Financial Statements

Note A--Compliance with Enabling Legislation and Bond Resolutions

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

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

Note B--Summary of Significant Accounting Policies

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

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

Governmental Funds: The governmental funds financial statements are prepared utilizing the current financial economic resources measurement focus and the modified accrual basis of accounting and include the activities of administering rental subsidy and other federal and state housing programs for the Commonwealth and 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.

Healthy at Home Eviction Relief: This fund accounts for resources made available through the United States Department of Treasury ("Treasury") via Division A Title V of the Consolidated Appropriations act of 2021. Under Section 501, the Treasury issued cash assistance to states and other local governments for payments of rent, utilities and home energy costs, and other expenses related to housing.

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.

Homeowner Assistance: This fund accounts for resources made available through the United States Department of Treasury ("Treasury") via Section 3206 of the American Rescue Plan Act of 2021. The program assists Kentucky homeowners who have lost their jobs or suffered a reduction in income to keep their homes. The program funds are available to all lenders and all borrowers who meet the program criteria. The fund balance of this program is restricted for use only by this program 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.

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,

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

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.

Fiduciary Funds: These are funds that the Corporation holds as a trustee or agent on behalf of an outside party that cannot be used to support the Corporation's own programs. The Corporation holds borrowers escrow funds and replacement reserve accounts. These activities are presented on pages 26-27 in accordance with GASB Statement No. 84. The establishment of the fiduciary funds on July 1, 2020 resulted in a cash transfer from business-type activities of $62,963.

<u>Cash and Cash Equivalents</u>: 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.

<u>Investment and Mortgage-Backed Securities</u>: 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. These assets are recorded as current if payment is expected in the next twelve months.

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 $5,711 of the securities and retains the servicing rights to the underlying housing mortgage loans.

<u>Loans and Allowance for Loan Losses</u>: 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. Loans are classified as current if payment is expected in the next twelve months. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance when management believes that the collectability of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience.

(Continued)

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

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

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

<u>Mortgage Servicing Rights</u>: Mortgage Servicing Rights (“MSRs”) are initially capitalized at fair value as separate assets when loans are sold and servicing is retained. The corporation determines the fair value by estimating the present value of the assets’ future cash flows. For purposes of evaluating and measuring impairment of capitalized mortgage servicing rights, the Corporation stratifies such rights based upon the predominant risk characteristics of the underlying loans. The Corporation determined those risk characteristics to be loan type, portfolio seasoning and interest rate.

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

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

Buildings	30 to 40 years
Equipment	3 to 10 years

<u>Net Position</u>: Net Position is displayed in three components as follows:

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

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

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

Interfund Eliminations: Interfund receivables and payables arising primarily from allocations of administrative charges among the appropriate funds are eliminated in the governmental and business-type activities columns of the Corporation-wide statement of net position. Changes in fund net position were impacted by interfund transfers of ($30) million, a $33.2 million decrease from transfers of $3.2 million in 2020. The significant change in transfers is due to the $33.7 million transfer of pension and OPEB unrestricted fund balance from business-unit to governmental fund balance. The cessation of participation in the KERS plans is the reason for this transfer. The remaining portion of the transfers is a $3.7 million transfer from the rental assistance governmental fund balance to the proprietary general fund balance for administrative expenses.

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 2021. 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.*

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.

Unearned Pass-Through Grant Revenues: Unearned pass-through grant revenues are resources received before all eligibility requirements have been met.

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.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on the prior year change in net position or net position.

Implementation of Accounting Standards: The Corporation adopted GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 90 *Majority Equity Interest*, and GASB Statement No. 93, *Replacement of Interbank Offered Rates* for the fiscal year ending June 30,2021.

GASB standards that are under evaluation include:

- GASB Statement No. 87*, Leases,* is effective for the fiscal year ending June 30, 2022, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* is effective for the year ending June 30, 2022, GASB Statement No. 91, *Conduit Debt Obligations,* is effective for the fiscal year ending June 30, 2023, GASB Statement No. 92, *Omnibus 2020*, is effective for the fiscal year ending June 30, 2022, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for the fiscal year ending June 30, 2023, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for the fiscal year ending June 30, 2023, and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32,* is effective for the fiscal year ending June 30, 2022. The Corporation has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

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, 2021, the carrying amount of the Corporation's cash and cash equivalents was $131,810 and the bank balance was $129,350. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $129,350 bank balance, $23,753 was covered by federal depository insurance and $105,597 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.

(Dollars in thousands)

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

Cash and cash equivalents of approximately $104,678 are restricted for government programs, payment of bond principal and interest and payment of principal and interest on mortgage-backed securities. Of the above amount, $70,143 is restricted in governmental activities and $34,535 is restricted in business-type activities. Within the business-type activities, the restricted amounts are almost entirely in the general fund. For payment of taxes, insurance, and other escrowed items on the Corporation's serviced loans, considered fiduciary activities, the book balance is $62,346.

Investment and Mortgage-Backed Securities: At June 30, 2021 the Corporation has the following:

Investment Type	Fair Value	Effective Duration (in Years)
U.S. government-sponsored enterprises	$ 140,775	1.58
Mortgage-backed securities	32,032	0.35
Money market funds	109,561	0.00
Total Investment and Mortgage-Backed Securities	282,368	1.93
Less amounts shown as current assets	117,943	
Noncurrent Investment and Mortgage-Backed Securities	$ 164,425	

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.

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, 2021:

Investment Type	Moody's Rating
Mortgage-backed securities	Aaa
U.S. government-sponsored enterprises	Aaa
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.

(Continued)

(Dollars in thousands)

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

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, 2021 consist of the following:

Issuer	Fair Value	Percentage of Portfolio
Dreyfus	$ 109,561	39%
U.S. government-sponsored enterprises	140,775	50%
GNMA	32,032	11%

The GNMA investments consist of mortgage-backed securities, the performance of which is guaranteed by GNMA. As servicer of GNMA securities with a book value of $5,782 as of June 30, 2021, included in the above amount, 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.

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, 2021:

		Fair Value Measurements 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. government-sponsored enterprises	$ 140,775	$ -	$ 140,775	$ -
Mortgage-backed securities	32,032	-	32,032	-
Total investments by fair value	172,807	$ -	$ 172,807	$ -
Investments by amortized cost	109,561			
Total investments	$ 282,368			

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.

(Dollars in thousands)

Note D--Housing Mortgage Loans

At June 30, 2021, housing mortgage loans consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$ 273,606
Multifamily (B)	18,036
Total Housing Revenue Bond Funds	291,642
General Funds (C)	134,802
Total Principal	426,444
Add accrued interest receivable on loans	1,098
Total Principal and Accrued Interest	427,542
Less allowance for loan losses	13,563
Net Housing Mortgage Loans	413,979
Less amount shown as current assets	25,591
Noncurrent Housing Mortgage Loans	$ 388,388

Additional information related to loans includes:

Note (A) Single-family includes $264,104 in federally insured or guaranteed loans, $8,648 of non-insured loans with initial loan-to-value ratios less than 90%, and $855 of loans backed by private mortgage insurance.

Note (B) Multifamily includes $15,499 in federally insured or guaranteed loans and $2,537 in non-insured loans.

Note (C) General Funds include $22,834 in federally insured or guaranteed loans and $111,967 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 $950.

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 $1,825.

(Continued)

(Dollars in thousands)

Note E--Other Loan Related Activities (Continued)

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, 2021, the Corporation is committed to make single-family mortgage loans totaling $118,882. The Corporation had $124,757 in outstanding commitments to sell single-family loans at June 30, 2021.

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, 2021:

Servicing Type	Number of Loans	Amounts
GNMA mortgage-backed securities	15,942	$ 1,764,877
Fannie Mae mortgage-backed securities	687	38,014
Fannie Mae whole loans	4,691	558,808
	21,320	$ 2,361,699

Included in Fannie Mae mortgage-backed securities totals are loans totaling $4,978 on which the Corporation has retained full default risk on the underlying loans and additional loans totaling $7,286 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 $634 for which the Corporation has retained default risk for the twelve months following the origination date.

Servicing rights totaling $6,632 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, 2021 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, 2020	Additions	Retirements and Dispositions	Balance June 30, 2021
Land	$ 1,089	$ -	$ -	$ 1,089
Buildings	5,927	124	-	6,051
Equipment	3,523	-	-	3,523
Less accumulated depreciation	(6,971)	(298)	-	(7,269)
Net Capital Assets	$ 3,568	$ (174)	$ -	$ 3,394

(Continued)

(Dollars in thousands)

Note H--Lines of Credit

The Corporation's lines of credit at June 30, 2021 and activity during the year follows:

Business-Type Activities	Balance July 1, 2020	Borrowings	Repayments and Dispositions	Balance June 30, 2021
Loan Warehousing Line of Credit 1	$ 4,875	$ 111,250	$ 112,525	$ 3,600
Loan Warehousing Line of Credit 2	3,000	30,950	31,250	2,700
	$ 7,875	$ 142,200	$ 143,775	$ 6,300

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 Federal Housing Administration ("FHA") and Rural Housing Service ("RHS") loans pending receipt of insurance/guarantee payments from the respective agencies. Line of Credit 2 may also be used for advances for principal and interest account shortages and tax and insurance account shortages associated with the Corporation's single-family loan servicing.

Loan Warehousing Line of Credit 1 provides for borrowings up to $25,000, bears interest based on the greater of one-month LIBOR rounded up to the nearest 1/16% or 0%, plus 85 basis points (.975% at June 30, 2021), matures on June 30, 2022, had $21,400 of unused credit at June 30, 2021, and contains a non-usage fee of .25% of the unused amount. Loan Warehousing Line of Credit 2 provides for borrowings up to $65,000, bears interest based on the greater of one-month LIBOR or 0%, plus 50 basis points (.6025% at June 30, 2021), matures on June 30, 2022, had $62,300 unused credit at June 30, 2021, and contains a non-usage fee of .15% of the unused amount.

In addition to requiring timely payment of all interest and principal amounts when due, the agreements between the Corporation and its line of credit lenders have provisions requiring periodic reporting of financial information and maintenance of a minimum public debt rating, the failure to comply with which, if not timely remedied, could result in the lender calling the debt immediately due and payable.

(Continued)

(Dollars in thousands)

Note I--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2021 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2020	Issued	Repaid/ Retired	Balance June 30, 2021	Amount Due Within One Year
Housing Revenue Bonds:						
2006 Series O:						
2021-2036, variable	$ 29,035	$ 13,905	-	$ 530	$ 13,375	$ 560
2006 Series T:						
2021-2038, variable	23,300	7,670	-	240	7,430	265
2006 Series W:						
2021-2038, variable	38,380	10,900	-	355	10,545	375
2007 Series J:						
2021-2038, variable	17,130	11,865	-	380	11,485	400
2007 Series O:						
2021, variable	10,000	5,470	-	160	5,310	175
2009 Series C, Sub series C-4:						
2028-2042, 2.52%	30,000	14,850	-	1,410	13,440	-
2011 Series A:						
2022-2028, 4.00% to 5.00%	20,000	2,105	-	1,875	230	90
2011 Series B:						
2022, 3.10%	20,000	2,785	-	1,850	935	695
2012 Series A:						
2021-2034, 3.468% to 4.268%	187,755	61,710	-	8,930	52,780	11,510
2013 Series C:						
2022-2024, 3.222% to 3.522%	36,470	11,325	-	3,935	7,390	2,010
2013 Series D:						
2024-2033, 3.20% to 3.75%	49,410	15,685	-	4,930	10,755	-
2013 Series E:						
2022-2023, 3.05%	7,590	1,575	-	1,025	550	495
2014 Series A:						
2022-2034, 2.948% to 4.296%	61,445	32,665	-	8,005	24,660	2,170
2014 Series B:						
2022-2037, 2.878% to 4.097%	30,000	18,240	-	1,925	16,315	580
	Original Face Amount	**Balance July 1, 2020**	**Issued**	**Repaid/ Retired**	**Balance June 30, 2021**	**Amount Due Within One Year**
Housing Revenue Bonds:						
2016 Series A:						
2022-2040, 2.226% to 3.86%	$ 72,465	$ 49,340	$ -	$ 3,850	$ 45,490	$ 2,390
2016 Series B:						
2022-2038, 2.655% to 4.00%	41,110	28,380	-	3,115	25,265	820
Total Housing Revenue Bonds	$ 674,090	288,470	$ -	$ 42,515	245,955	$ 22,535
Unamortized premium		1,132			735	
Net Revenue Bonds		$ 289,602			$ 246,690	

(Continued)

(Dollars in thousands)

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

As indicated in the above table, bond issues totaling $48,145 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.

In addition to requiring timely payment of all interest and principal amounts when due, and the maintenance of a required minimum Bond Debt Service Reserve Fund balance, the trust documents governing the administration of the Corporation's bonds outstanding require numerous reporting and tax compliance provisions, the failure to comply with which could result in, among other things, the trustee assuming all duties with respect to bond administration from the Corporation and taking any other actions necessary to protect the interests of the bondholders.

As of June 30, 2021, 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.

	Principal Payments	Interest Payments	Total Debt Service
Fiscal years ending June 30,			
2022	$ 22,535	$ 6,994	$ 29,529
2023	25,115	6,226	31,341
2024	22,070	5,464	27,534
2025	19,100	4,773	23,873
2026	16,815	4,177	20,992
Five years ending June 30,			
2027-2031	72,150	13,355	85,505
2032-2036	49,685	4,383	54,068
2037-2041	17,985	994	18,979
2042-2046	500	7	507
	$ 245,955	$ 46,373	$ 292,328

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.

(Continued)

(Dollars in thousands)

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

Other Noncurrent Liabilities: Other noncurrent liabilities had the following activity during the year:

Account	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021
Other noncurrent liabilities	$ 15,988	$ 79	$ (279)	$ 15,788

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, 2021, conduit debt obligations have been issued for 61 multi-family projects totaling approximately $828,857. 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--Restatement

In FY2021, the Corporation made a one-time change to the measurement date for the Kentucky Employees Retirement Plan. This change in measurement date is a change in accounting policy allowable under GASB Statement No. 75 for OPEB and GASB Statement No. 68 for Pensions. The Corporation's presentation of net position with respect to pension and OPEB at June 30, 2020 was based on reports from Kentucky Public Pension Authority's June 30, 2019 valuation of the plan updated for certain assumptions. The change in measurement date resulted in July 1, 2020 balances being recorded based on reports from the Kentucky Public Pension Authority's June 30, 2020 valuation of the plan updated for certain assumptions.

The effect of the change in accounting principle is summarized in the following table:

Prior Period Adjustment

	Governmental Activities	Proprietary Activities	Combined Activities
Beginning net position as previously reported at June 30, 2020	$ (13,845)	$ 364,757	$ 350,912
Prior period adjustment - Pension and OPEB:			
Net pension and OPEB liability	(4,465)	(11,292)	(15,757)
Deferred outflows	1,376	3,649	5,025
Deferred inflows	1,773	4,558	6,331
Total prior period adjustment	(1,316)	(3,085)	(4,401)
Net position as restated, July 1, 2020	$ (15,161)	$ 361,672	$ 346,511

(Continued)

Note L—Net Pension and OPEB Cessation Payable

Legislation was enacted during the 2015 Regular Session establishing a process for certain employers to cease participation with KPPA. In 2019, House Bill 1 established a one-time, voluntary cessation window for KERS Quasi-Governmental Employers with nonhazardous employees.

Effective June 30, 2021, the Corporation ceased participation in the Kentucky Employees Retirement Plan and recorded an estimated cessation liability of $90 million in the financial statements to be paid in full by June 30, 2022. The cessation liability of $90 million is measured based on an initial estimate of the preliminary actuarial cost associated with the cessation under the provisions established in subsection (8) of KRS 61.522. A final actuarial cessation cost liability will be calculated as of the cessation date. As a result of the cessation, the Kentucky Housing Corporation Defined Contribution Plan (see Note M) was created constituting an alternative retirement program compliant with KRS 61.522.

Note M—Defined Contribution Plan

Effective July 1, 2021, eligible employees may choose to participate in a retirement plan administered by the Kentucky Deferred Compensation Authority. Employee elected contributions are invested in a 401(k) plan in which the employee is 100% vested. Employer matching and discretionary contributions are invested in a 401(a) plan that must meet vesting terms. All employees of the Corporation employed as of July 1, 2021 are immediately 100% vested in the 401(a) plan. Employees hired after July 1, 2021 will be vested 25% after two years of service, 50% after three years of service, 75% after four years of service and 100% after five years of service.

As of June 30, 2021, the corporation does not have any expenses, forfeitures, or liabilities related to the defined contribution plan. For fiscal year 2022, 100% of up to 4% of employee elected deferrals into the 401(k) plan will be matched by the corporation.

Note N--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, 2021. Settlements have not exceeded insurance coverage.

Note O--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 30, 2021, the date the financial statements were issued.

A defined contribution plan was effective on July 1, 2021. See Note M for additional information.

Note P--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.

The COVID-19 pandemic continues to present monumental challenges to the world's health and well-being and the continuing economic and social repercussions are on a scale not experienced in generations. It is unclear whether fiscal and monetary initiatives will be successful in reducing the impact sufficiently to prevent worldwide recession or depression. The Corporation has been tasked with providing relief to many Kentuckians who have been adversely affected by the pandemic, ranging from increased rental assistance including utility assistance, eviction prevention and increased homelessness prevention to mortgage loan forbearance, loan modification, loan payment assistance and homeowner utility payment assistance. While significant funding has been provided by numerous federal relief initiatives for both the direct relief to those impacted and for the administrative costs of managing the process, it remains unclear as to ultimate impact on the Corporation's financial performance. It is also unclear what additional unforeseen impacts to Corporation operations the pandemic and reaction to the pandemic may have, any of which may affect future performance.

SUPPLEMENTARY COMBINING INFORMATION
HOUSING REVENUE BOND FUNDS

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF NET POSITION
HOUSING REVENUE BOND FUNDS
June 30, 2021
(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	$ 586	$ -	$ -	$ -	$ -	$ -	$ 586
Investment securities	5,532	9,122	10,672	17,502	8,459	7,765	59,052
Mortgage-backed securities	314	-	-	1,302	-	-	1,616
Housing mortgage loans	15,114	-	-	-	664	-	15,778
Interfund accounts	(5,285)	3,449	1,519	-	337	-	20
Total Current Assets	16,261	12,571	12,191	18,804	9,460	7,765	77,052
Noncurrent Assets							
Investment securities	-	-	-	134,509	-	-	134,509
Mortgage-backed securities	5,905	-	-	24,511	-	-	30,416
Housing mortgage loans	239,885	-	-	-	35,488	-	275,373
Real estate owned and related receivables	-	-	-	-	-	-	-
Total Noncurrent Assets	245,790	-	-	159,020	35,488	-	440,298
Total Assets	262,051	12,571	12,191	177,824	44,948	7,765	517,350
LIABILITIES							
Current Liabilities							
Accounts payable and other liabilities	113	-	-	-	-	-	113
Accrued interest payable	-	-	3,557	-	-	-	3,557
Net Pension and OPEB cessation payable	7,000	-	-	-	-	-	7,000
Revenue bonds	22,535	-	-	-	-	-	22,535
Total Current Liabilities	29,648	-	3,557	-	-	-	33,205
Noncurrent Liabilities							
Revenue bonds	224,155	-	-	-	-	-	224,155
Other noncurrent liabilities	-	-	-	-	-	-	-
Total Noncurrent Liabilities	224,155	-	-	-	-	-	224,155
Total Liabilities	253,803	-	3,557	-	-	-	257,360
FUND NET POSITION							
Restricted by revenue bond indenture	$ 8,248	$ 12,571	$ 8,634	$ 177,824	$ 44,948	$ 7,765	$ 259,990

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, 2021
(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	$ 14,065	$ -	$ -	$ -	$ 774	$ -	$ -	$ 14,839
Mortgage-backed securities	234	-	-	(45)	-	-	-	189
Marketable securities	-	2	1	709	2	2	-	716
Net increase (decrease) in fair value of securities	(195)	-	-	(1,540)	-	-	-	(1,735)
Other income	324	-	-	-	-	-	-	324
Total Operating Revenues	14,428	2	1	(876)	776	2	-	14,333
Operating Expenses								
Interest on revenue bonds	-	-	7,528	-	-	-	-	7,528
Provision for losses on loans	-	-	-	-	-	-	-	-
General and administrative	225	-	-	-	-	-	-	225
Mortgage loan servicers' fees	975	-	-	-	142	-	-	1,117
Total Operating Expenses	1,200	-	7,528	-	142	-	-	8,870
Operating Income (Loss)	13,228	2	(7,527)	(876)	634	2	-	5,463
Interfund Transfers	(5,933)	2,492	8,315	-	(2,362)	(2)	6,940	9,450
Change in Fund Net Position	7,295	2,494	788	(876)	(1,728)	-	6,940	14,913
Fund Net Position, Beginning of Year	953	10,077	7,846	178,700	46,676	-	825	245,077
Fund Net Position, End of Year	$ 8,248	$ 12,571	$ 8,634	$ 177,824	$ 44,948	$ -	$ 7,765	$ 259,990

See Independent Auditor’s Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS
HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2021
(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	$ 14,065	$ -	$ -	$ -	$ 774	$ -	$ -	$ 14,839
Operating expenses	(1,200)	-	-	-	(142)	-	-	(1,342)
Fundings of housing mortgage loans	(95)	-	-	-	(9)	-	-	(104)
Repayments on housing mortgage loans	47,013	-	-	-	5,050	-	-	52,063
Other, net	(925)	373	847	-	(176)	-	-	119
Net Cash Provided By Operating Activities	58,858	373	847	-	5,497	-	-	65,575
Cash Flows From Noncapital Financing Activities								
Principal payments on revenue bonds	-	-	(42,515)	-	-	-	-	(42,515)
Interest payments on revenue bonds	-	-	(8,579)	-	-	-	-	(8,579)
Interfund transfers - loan collections and investment income	(61,515)	35,558	24,721	-	(2,362)	(2)	-	(3,600)
Interfund transfers - retirement of debt	(55)	(33,065)	26,180	-	-	-	6,940	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(61,570)	2,493	(193)	-	(2,362)	(2)	6,940	(54,694)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(2,324)	(37,021)	(31,579)	(228,581)	(4,303)	-	(51,695)	(355,503)
Sales of investments and mortgage-backed securities	4,887	34,153	30,923	227,874	1,166	-	44,755	343,758
Interest received on investments and mortgage-backed securities	240	2	2	707	2	2	-	955
Net Cash Provided By (Used In) Investing Activities	2,803	(2,866)	(654)	-	(3,135)	2	(6,940)	(10,790)
Net Increase (Decrease) in Cash and Cash Equivalents	91	-	-	-	-	-	-	91
Cash and Cash Equivalents, Beginning of Year	495	-	-	-	-	-	-	495
Cash and Cash Equivalents, End of Year	$ 586	$ -	$ -	$ -	$ -	$ -	$ -	$ 586

(Continued)

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS
HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2021
(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 operating activities								
Operating income (loss)	$ 13,228	$ 2	$ (7,527)	$ (876)	$ 634	$ 2	$ -	$ 5,463
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Provision for losses on loans	-	-	-	-	-	-	-	-
Debt issuance costs	-	-	-	-	-	-	-	-
Interest expense on revenue bonds	-	-	7,528	-	-	-	-	7,528
Interest income on mortgage-backed securities	(234)	-	-	45	-	-	-	(189)
Interest income on marketable securities	-	(2)	(1)	(709)	(2)	(2)	-	(716)
Net decrease in fair value of securities	195	-	-	1,540	-	-	-	1,735
Other income	(324)	-	-	-	-	-	-	(324)
Changes in operating assets and liabilities:								
Fundings of housing mortgage loans	(95)	-	-	-	(9)	-	-	(104)
Repayments on housing mortgage loans	47,013	-	-	-	5,050	-	-	52,063
Other, net	(925)	373	847	-	(176)	-	-	119
Net Cash Provided By Operating Activities	$ 58,858	$ 373	$ 847	$ -	$ 5,497	$ -	$ -	$ 65,575