KENTUCKY HOUSING CORPORATION

FINANCIAL STATEMENTS

June 30, 2023

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kentucky Housing Corporation
Frankfort, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kentucky Housing Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Corporation, as of June 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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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 of the Housing Revenue Bond funds 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. The 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 of the Housing Revenue Bond funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated <>, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

Lexington, Kentucky
September 29, 2023

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, 2023. It should be read in conjunction with the Corporation's financial statements.

Financial Highlights

- Corporation-wide net position increased $19.1 million, resulting from an increase in net position attributable to the Corporation's business-type activities of $19.4 million and a decrease of $.3 million attributable to the Corporation's governmental activities.

- Single-family loan originations for the year totaled $486.5 million, a decrease of over $73.7 million from the prior year level. In addition to the decrease in overall origination volume, due to increased market volatility and rapid increases in interest rates, the Corporation realized a decrease in net secondary market cash trading gains of $8.3 million, from $14.7 million in fiscal 2022 to $6.4 million in the current year. Fee income associated with loan production totaled $.8 million, a decrease of $.2 million from the prior year.

- The Corporation's single-family loan servicing portfolio increased by $225 million, benefitting from the moderate originations and a significant slowdown in payoffs. Servicing fee revenues increased slightly from $10.6 million to $11.2 million, due primarily to the collection of fees on loans recovering from COVID related forbearance. 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 $25.3 million to $209.6 million at June 30, 2023.

- Fiscal 2023 reflects the financial impact with respect to governmental activities of administration of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act and American Rescue Plan Act (ARPA) initiatives to assist renters, landlords, homeowners and the homeless maintain or obtain suitable housing opportunities in the face of the ongoing COVID pandemic. Many of these programs began to sunset during the fiscal year as the national emergency declaration expired. Total expenditures decreased by $3.2 million, primarily for temporary and contract employees, all of which was offset by a similar decrease in reimbursable admin fees. Most of these programs contain sunset provisions extending into 2025 unless funding is exhausted before then.

- Overall, operating income increased by $1.7 million (when measured before changes in fair value of marketable securities), which in addition to the impacts of the above discussions, resulted primarily from an increase in net interest margin of $1.4 million due to bond transactions and a reduction in loan origination costs of $3.9 million, offset by an approximate $11.4 million reduction in trading gains, increases of $1.4 million in estimated loan losses and an increase in general administrative expenses of $5.4 million (primarily due to an adjustment made in 2022 to reflect a $4.1 million decrease in the final amount owed to Kentucky Employees Retirement Systems, decreases of $.2 million in office supplies, $0.1 million in default-related servicing costs, and $.2 million in other administrative costs, offset by an approximate $1.8 million increase in non-reimbursable salary/benefit and contractor expense).

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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 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, U.S. Treasury's Healthy at Home Eviction Relief program ("Eviction Relief Funds") and the U.S. Treasury's Homeownership Assistance Fund ("Homeowner Assistance"). 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.

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The Corporation-wide financial statements separately present the governmental and business-type activities of the Corporation. The nature of the Corporation's governmental activities is such that substantially all funds flow through the Corporation to ultimate program recipients. As a result, the Balance Sheet related to governmental activities shows a relatively small amount of assets, representing monies received by the Corporation but unexpended for each respective program's purpose. Conversely, the business-type activities of the Corporation create the vast majority of the Corporation's assets, liabilities and net position as reflected in the Statement of Net Position. The overall financial condition of the Corporation can thus be best evaluated through the analysis in the Proprietary Funds section in pages 9-12 of the MD&A and under the Proprietary Funds' financial statements on pages 19-23.

The Statement of Activities shows the financial performance of each significant governmental and business-type activity operated by the Corporation over the past year. The revenues and expenses associated with each activity are shown as well as a net amount showing whether revenues exceeded expenses. The net revenue of all governmental activities (after transfers) results in an increase (decrease) in the fund net position that is to be expended for program purposes. The net revenue of all business-type activities results in an increase in the Fund Net Position of the Corporation. The Corporation's overall net position increased by $19.1 million for the year ended June 30, 2023. 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	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Current assets	$ 142.5	$ 209.0	$ 155.8	$ 133.5	$ 298.3	$ 342.5
Non-current assets	-	-	495.6	526.5	495.6	526.5
Total Assets	142.5	209.0	651.4	660.0	793.9	869.0
Current liabilities	124.4	190.6	43.6	40.3	168.0	230.9
Non-current liabilities	-	-	157.8	189.1	157.8	189.1
Total Liabilities	124.4	190.6	201.4	229.4	325.8	420.0
Net Position:						
Invested in capital assets	-	-	3.6	3.3	3.6	3.3
Restricted	18.1	18.4	261.3	261.3	279.4	279.7
Unrestricted	-	-	185.1	166.0	185.1	166.0
Net Position	$ 18.1	$ 18.4	$ 450.0	$ 430.6	$ 468.1	$ 449.0

The net position of the governmental activities decreased from $18.4 million to $18.1 million. All assets of the Corporation's governmental activities are externally restricted for program purposes. Total assets subject to immediate disbursement are reflected as current liabilities and remaining assets are reflected as restricted net position. The decrease in net position indicates that revenues received from governmental activities was less than program grants, operating expenditures, and transfers.

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The net position of the Corporation's business-type activities increased from $430.6 million to $450.0 million as a result of total revenues of $57.3 million, total program expenses of $41.6 million, and transfers out from government operations of $3.7 million, for a net increase in net position of business-type activities of $19.4 million. Comparisons in the changes in net position between fiscal years 2023 and 2022 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	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Revenues						
Operating revenues	$ 23.7	$ 27.0	$ 56.0	$ 57.8	$ 79.7	$ 84.8
Operating grants	351.0	401.0	1.3	2.5	352.3	403.5
Total Revenues	374.7	428.0	57.3	60.3	432.0	488.3
Program Expenses						
HOME program	10.7	12.0	-	-	10.7	12.0
Weatherization assistance	5.3	4.7	-	-	5.3	4.7
Rental assistance	184.0	177.8	-	-	184.0	177.8
Eviction Relief Funds	112.3	180.6	-	-	112.3	180.6
Other federal and state programs	59.0	50.3	-	-	59.0	50.3
Administrative	-	-	12.0	8.8	12.0	8.8
Bond financed loan programs	-	-	10.3	9.2	10.3	9.2
Loan servicing	-	-	5.2	4.7	5.2	4.7
Other loan and housing credit programs	-	-	14.1	16.5	14.1	16.5
Total Program Expenses	371.3	425.4	41.6	39.2	412.9	464.6
Excess before transfers	3.4	2.6	15.7	21.1	19.1	23.7
Interfund transfers in (out)	(3.7)	(4.8)	3.7	4.8	-	-
Increase (Decrease) in Net Position	$ (0.3)	$ (2.2)	$ 19.4	$ 25.9	$ 19.1	$ 23.7

Total revenues for governmental activities were $374.7 million during fiscal year 2023, a $53.3 million increase from the $428.0 million in revenues in fiscal year 2022. The increase was due to a $50.0 million increase in operating grants and an $3.3 million decrease in charges for services. Fiscal year 2023 operating grants include federal funding for Rental Assistance of $178.5 million, HOME of $9.6 million, Healthy at Home Eviction Relief Funds of $102.7 million, and Weatherization of $4.5 million, which represent 84% of total operating grant revenues.

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The Corporation receives fees or charges for services for federal program administration. These revenues decreased from $27 million in 2022 to $23.7 million during fiscal year 2023. 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 2023, $23.7 million in fee revenue was received and $20.0 million in operating expenses were incurred thereby enabling a $3.7 million transfer out, a $1.1 million decrease from the $4.8 million transferred in 2022.

Program expenses for governmental activities decreased during 2023 by $53.1 million. Program expenses for governmental activities during 2023 were $371.3 million, comprised of grants of $351.3 million and operating expenses of $20.0 million. In fiscal 2022, total program expenses were $425.4 million with grants of $403.1 million and operating expenses of $22.3 million.

Total revenues for business-type activities were $57.3 million during fiscal year 2023, a $3.0 million decrease from the $60.3 million of revenues in fiscal year 2022. For fiscal 2023, gross gains on the sale of loans held for sale decreased $11.4 million, interest earnings from loans, mortgage-backed securities and other investments increased $1.1 million, fees, charges and other income increased $.2 million and the change in fair value of securities increased $7.1 million.

Program expenses for business-type activities increased $2.4 million from $39.2 million in 2022 to $41.6 million in 2023. Bond financed loan program expenses increased by $1.1 million, administrative expenses, or expenses not directly attributable to programs increased by $3.2 million, loan servicing expenses increased by $.5 million and other loan program expenses decreased by $2.4 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 $15.7 million in 2023 compared to $21.1 million in 2022, a decrease of $5.4 million. As described above and in additional detail under "Proprietary Funds," the decrease is due to a $3.0 million decrease in revenues and a $2.4 million increase in expenses. Transfers-in were $3.7 million in 2023, a $1.1 million decrease from 2022. Such changes in revenues, expenses and transfers resulted in an increase in business-type activities change in net position of $19.4 million.

Fund Financial Statements

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

Governmental Funds – Pages 17 and 18

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, 2023, the Corporation retained $142.5 millions of total assets for program purposes and had $124.4 million reflected as program liabilities resulting in a total of $18.1 million reflected as restricted fund balances for program purposes.

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During fiscal year 2023, the Affordable Housing Trust Fund had revenues greater than expended funds of $.3 million, thereby increasing the program's fund net position. Rental Assistance revenues of $184.0 million were expended for programs and $3.7 million was transferred to the proprietary funds. Similarly, nearly all HOME program revenues, $10.7 million, were expensed in an equal amount in 2023, as were Weatherization revenues of $5.3 million. Revenues of the Healthy at Home Eviction Relief program of $112.3 million were expensed in 2023. Finally, Other Housing Funds expenses exceeded revenues by $.7 million, thereby decreasing the fund net position of Other Housing Funds.

Proprietary Funds – Pages 19 through 23

A significant portion of the Corporation's financial resources and activities is reported in the proprietary fund financial statements. Proprietary funds account for approximately 82% of corporate assets, 70% of non-grant revenues, 67% 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, 17% of total revenues, and 56% 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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Condensed financial information from the Statement of Net Position follows in Table 3.

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

	2023	2022	Change
Program-Purpose Assets:			
Mortgage loans and real estate owned	$ 335.5	$ 366.5	$ (31.0)
Mortgage-backed securities	27.0	21.8	5.2
Housing construction loans	1.0	1.2	(0.2)
Other loans	2.3	3.0	(0.7)
Total Program-Purpose Assets	365.8	392.5	(26.7)
Cash and Investments	230.5	216.0	14.5
Loans held for sale	38.0	34.1	3.9
Other assets	17.1	17.4	(0.3)
Total Assets	651.4	660.0	(8.6)
Bonds payable	167.4	188.0	(20.6)
Net pension and OPEB payable	-	-	-
Other liabilities	34.0	41.4	(7.4)
Total Liabilities	201.4	229.4	(28.0)
Fund Net Position	$ 450.0	$ 430.6	$ 19.4

Total program-purpose assets at June 30, 2023 were $365.8 million. Mortgage loans, mortgage-backed securities, housing construction loans and other loans decreased by $26.7 million or 7% during 2023. The decrease was the result of program loan fundings of $45.1 million, program loan repayments of $75.5 million, changes in accrued loan and interest and loan loss provision of $1.5 million, plus a net increase in mortgage-backed securities of $5.1 million, resulting from purchases of $9.2 million, normal amortization and prepayments totaling $2.9 million, and changes in fair value and premium amortization netting to $1.3 million. This decrease in program assets reflects the Corporation's continued delivery of single-family loan originations into the secondary market.

The Debt Service Reserve Fund maintains deposits to provide additional security and a source of liquidity to bond investors. Deposits must be maintained at the level required under the Corporation's bond indenture. At June 30, 2023, the Debt Service Reserve requirement was $36.7 million and the amount on deposit was $164.5 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 $80.6 million of the remaining $127.8 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.

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During 2023, the Corporation incurred line of credit borrowings in the amount of $224.5 million. Total bond and line-of-credit principal repayments were $245.2 million and the change in net unamortized bond premium was $.1 million. As a result of this activity, bonds outstanding decreased $20.6 million and short-term debt decreased by $.1 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.

In October 2023, the Corporation is expected to execute a bond purchase agreement for the issuance of $98,115 of 2023 Series A Housing Revenue Bonds.

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)

	2023	2022	Change
Interest income on loans	$ 19.5	$ 21.0	$ (1.5)
Interest income on mortgage-backed securities	0.7	0.4	0.3
Interest income on marketable securities	3.7	1.4	2.3
Increase (decrease) in fair value of securities	(5.7)	(12.8)	7.1
Gains on sales of loans held for sale	18.3	29.7	(11.4)
Fees, charges and other income	20.8	20.6	0.2
Total operating revenues	57.3	60.3	(3.0)
Interest expense on revenue bonds and lines of credit	6.2	5.0	1.2
Interest expense on pension liability	-	1.5	(1.5)
Provision for loan losses	2.0	0.6	1.4
General and administrative	20.8	15.4	5.4
Loan origination costs	10.0	13.9	(3.9)
Other expenses	2.6	2.8	(0.2)
Total operating expenses	41.6	39.2	2.4
Operating income (loss)	15.7	21.1	(5.4)
Interfund transfers in	3.7	4.8	(1.1)
Changes in Fund Net Position	$ 19.4	$ 25.9	$ (6.5)

The change in fund net position decreased by $6.5 million in 2023, compared to a $17.1 million decrease for 2022. The $6.5 million decrease is attributable to several factors. Interest income on loans, mortgage-backed securities and marketable securities increased $1.1 million, from $22.8 million in 2022 to $23.9 million in 2023. Gains on sales of loans held for sale decreased $11.4 million, from $29.7 million in 2022 to $18.3 million in 2023. The change in fair value of investment securities increased by $7.1 million, from $(12.8) million in 2022 to $(5.7) million in 2023. Fees, charges and other income increased $.2 million, from $20.6 million in 2022 to $20.8 million in 2022.

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Interest expense on revenue bonds, lines of credit and pension liability decreased $.3 million, from $6.5 million in 2022 to $6.2 million in 2023. The provision for loan losses increased $1.4 million, from $.6 million in 2022 to $2.0 million in 2023. General and administrative expenses increased $5.4 million, from $15.4 million in 2022 to $20.8 million in 2023. Loan origination costs decreased $3.9 million, from $13.9 million in 2022 to $10.0 million in 2023.

Also, other expenses, including grants, loan servicing expenses and the expensing of debt issuance costs, decreased $.2 million, from $2.8 million in 2022 to $2.6 million in 2023.

Finally, changes in fund net position were impacted by interfund transfers of $3.7 million, a $1.1 million decrease from transfers of $4.8 million in 2022.

Financial Outlook

The Corporation has experienced unprecedented challenges over the last several years. While the COVID pandemic seems to be winding down, rapidly rising interest rates, inflationary pressures, and political unrest in many parts of the globe continue to put pressure on all areas of the Corporation.

The impact of the COVID pandemic will be felt for years across the Commonwealth. As has been the case from the outset, the Corporation has been tasked in administering the numerous federal and state initiatives providing and distributing financial assistance. This past year has seen the wind down of the Healthy at Home Eviction Relief Program, which was a proven success in providing rental assistance, utility assistance, eviction prevention and increased homelessness prevention by assisting tenants remain in their units or locate available rentable units during a national health crisis. Homeowners are likewise in need of relief now that most mortgage forbearance programs have ended. As such, the Corporation administers homeowner relief in the form of catching up and maintaining current mortgage payments, loan modifications, and utility payments. The funding at the state and federal levels provides for both the direct relief to those impacted and for the administrative costs of managing the process. To administer these programs in a quick and effective manner, additional staff and temporary contractors were hired. As the COVID-related programs sunset, the Corporation continues to right-size both direct program staff and indirect support staff, resulting in decreased expenditures with corresponding decreases in administrative fees in the Governmental Functions/Activities portion areas of the Corporation.

As the Corporation expected to recover this year from the chaos unleashed by the COVID pandemic, some of the biggest challenges likely to confront the global economy emerged. The war in Ukraine, western sanctions against Russia and other geopolitical pressures has disrupted supply chains resulting in escalated energy and food prices. As inflation has climbed to multiyear highs, the Federal Reserve's attempt to slow the economy while at the same time trying to avoid a recession resulted in increased interest rates, with the most recent rate hike taking benchmark borrowing costs to their highest levels in almost 22 years. The most recent comments from the Federal Reserve Chair indicated that additional interest rate increases could be yet to come and there is no anticipation that rates will decrease anytime soon.

Management is particularly watchful of the impact of the aforementioned issues and initiatives on interest rates. Although rising rates cause investment returns to rise, for the Corporation rising rates serve to increase variable rate debt costs and raise mortgage lending rates, dampening demand for the Corporation's primary revenue generator, single-family home mortgage originations. At the same time, higher rates typically reduce loan payoff activity, helping to preserve the Corporation's income producing servicing portfolio. For the immediate future, rates on the Corporation's variable rate bonds will increase whereas the fixed rates of the loans financed by the bonds will not. The current higher 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.

(Continued)

Current economic conditions, such as rising interest rates, increased housing costs, shortage of housing inventory, and global inflationary pressures have impacted the ability for first-time home buyers to achieve homeownership. Upwardly mobile homebuyers of the past several years are staying put in their current houses with their low-rate mortgages, resulting in a shortage of entry level housing stock. Changing market conditions have also impacted the ongoing success of the Corporation's Secondary Market Mortgage Purchase (SMMP) program. This source of revenue has been unpredictable over the past year and continues to be subject to market forces. As a result of the rapid rate increases and the reluctance of the secondary market participants chasing rates up the Corporation must seek alternative loan funding sources, many of which may or may not be easily accessed nor as profitable in execution. In order to deliver its mission to help Kentuckians achieve homeownership, the Corporation plans to issue mortgage revenue bonds (MRBs) under a new general indenture in 2024 to provide additional funding to augment the SMMP program and potentially reach an unserved/underserved market. As such, the existing bond indenture is anticipated to continue shrinking resulting in decreasing net interest income. Corporation staff, 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 Housing Revenue Bond indenture portfolio as those opportunities arise.

With almost all the Corporation's single-family loan originations now dependent on using 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 to the Corporation and beneficial to the borrower remains a top priority. Demand on these resources continues to increase as the higher interest rates and increased housing costs result in higher mortgage principals requiring additional down payment assistance.

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 families served and generating income opportunities, as these initiatives have been favorably received by our housing partners throughout the Commonwealth. As many of these efforts utilize Private Activity Bond Cap, availability of which is limited, management is proactively monitoring potential competing uses of this vital resource. Increasing the number of affordable multi-family housing units is a natural complement to the Corporation's history of providing single-family financing and helps stretch our mission dollar to reach the maximum number of the Commonwealth's population in need.

The Corporation's presence at both the single-family and multifamily levels throughout the Commonwealth will prove instrumental in our efforts to address the current disaster housing needs and the response to the tornado and flood disasters of the last year and a half. In 2023, the state legislature created the Rural Housing Trust Fund which will be administered by the Corporation and used to rebuild or rehabilitate units in areas impacted by the natural disasters. Management, in concert with state and federal agencies, continue to discuss how other disaster recovery sources in Kentucky can be used to address long-term recovery in communities affected by natural disasters.

In the current environment, finding, retaining and compensating the talent necessary to perform the Corporate mission requires increased effort by management. Finding people to work has become increasingly difficult. Working from home has become a part of the new work paradigm. Increased cost of childcare and eldercare and cost of commuting has made working from home oftentimes necessary. Salary/wage inflation is putting increasing pressure on Corporate financial performance. The Corporation's exit from the Kentucky Employees Retirement System in 2021 and its excessive funding rate has allowed the Corporation some flexibility in balancing staffing costs, but like many service-oriented agencies the Corporation cannot simply pass increased costs on to those we serve.

(Continued)

Corporation management remains watchful for developments accompanying the change in administrative policy 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 mitigate negative impacts and support positive impacts of such changes.

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. As pandemic implemented loan forbearance programs end and more permanent mortgage payment assistance solutions are implemented there may be an increase in loans going into serious default or foreclosure resulting in potential loss to the Corporation. Management is mindful that other unexpected economic disruptions could subject the Corporation to increased losses, as well, and believes allowances for such losses are adequate. 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."

Management is mindful of the many obstacles to maintaining the level of service which both the Commonwealth and Corporation have been accustomed to delivering and will respond with the level of service commensurate with the needs of those to be served. 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 world events. The Corporation recently celebrated its 50th birthday having excelled through numerous economic cycles and other challenges by balancing fulfillment of our mission with prudent resource management, thereby ensuring the Corporation will be here for years to come; this long-term commitment is how Kentucky Housing 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, 2023. Inquiries may be directed to Tracy Thurston, Chief Financial Officer at Kentucky Housing Corporation, 1231 Louisville Road, Frankfort, Kentucky 40601. Telephone: (502) 564-7630, x218, fax: (502) 564-7322, e-mail: tmthurston@kyhousing.org.

KENTUCKY HOUSING CORPORATION
CORPORATION-WIDE STATEMENT OF NET POSITION
Year ended June 30, 2023
(Dollars in thousands)

	Governmental Activities	Business-Type Activities	Combined Totals
ASSETS			
Current Assets			
Cash and cash equivalents	$ 124,704	$ 28,493	$ 153,197
Investment securities	16,805	55,063	71,868
Mortgage-backed securities	-	1,688	1,688
Housing mortgage loans held for sale	-	37,934	37,934
Housing mortgage loans	-	24,906	24,906
Housing construction loans	-	988	988
Other loans	-	261	261
Accounts receivable and other assets	2,209	5,221	7,430
Interfund accounts	(1,238)	1,238	-
Total Current Assets	142,480	155,792	298,272
Noncurrent Assets			
Investment securities	-	146,895	146,895
Mortgage-backed securities	-	25,328	25,328
Housing mortgage loans	-	310,591	310,591
Other loans	-	2,088	2,088
Real estate owned-net and related receivables	-	264	264
Capital assets	-	3,589	3,589
Other noncurrent assets	-	6,917	6,917
Total Noncurrent Assets	-	495,672	495,672
Total Assets	142,480	651,464	793,944
LIABILITIES			
Current Liabilities			
Lines of credit	-	3,500	3,500
Accounts payable and program advances	21,183	1,440	22,623
Unearned pass-through grant revenues	103,216	-	103,216
Accrued interest payable	-	3,228	3,228
Escrows and project reserves	-	13,532	13,532
Revenue bonds, due within one year	-	21,930	21,930
Total Current Liabilities	124,399	43,630	168,029
Noncurrent Liabilities			
Revenue bonds, due after one year	-	145,516	145,516
Other noncurrent liabilities	-	12,266	12,266
Total Noncurrent Liabilities	-	157,782	157,782
Total Liabilities	124,399	201,412	325,811
NET POSITION			
Net investment in capital assets	-	3,589	3,589
Restricted by			
Revenue bond indenture	-	252,261	252,261
Enabling legislation	-	9,078	9,078
Program requirements	18,081	-	18,081
Unrestricted	-	185,124	185,124
Net Position	$ 18,081	$ 450,052	$ 468,133

See Notes to Financial Statements

KENTUCKY HOUSING CORPORATION
CORPORATION-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2023
(Dollars in thousands)

Functions/Activities	Direct Expenses Grants	Direct Expenses Operating	Program Revenues Charges for Services	Program Revenues Operating Grants	Net (Expense) Revenues and Changes in Net Position Governmental Activities	Net (Expense) Revenues and Changes in Net Position Business-Type Activities	Total
Governmental Activities							
HOME program	$ 9,561	$ 1,092	$ 1,092	$ 9,571	$ 10	$ -	$ 10
Eviction relief funds	102,744	9,599	9,598	102,744	(1)	-	(1)
Weatherization assistance	4,529	761	761	4,529	-	-	-
Rental assistance	178,520	5,432	9,161	178,520	3,729	-	3,729
Other federal and state housing programs	55,961	3,081	3,081	55,603	(358)	-	(358)
Total Governmental Activities	351,315	19,965	23,693	350,967	3,380	-	3,380
Business-Type Activities							
Administrative	1,595	10,389	1,217	-	-	(10,767)	(10,767)
Bond financed loan programs	-	10,340	9,599	-	-	(741)	(741)
Loan servicing	-	5,164	11,622	-	-	6,458	6,458
Other loan and housing credit programs	-	14,139	33,591	1,319	-	20,771	20,771
Total Business-Type Activities	1,595	40,032	56,029	1,319	-	15,721	15,721
Total Activities	$ 352,910	$ 59,997	$ 79,722	$ 352,286	3,380	15,721	19,101
Transfers					(3,729)	3,729	-
Change in Net Position					(349)	19,450	19,101
Net Position, Beginning of Year					18,430	430,602	449,032
Net Position, End of Year					$ 18,081	$ 450,052	$ 468,133

See Notes to Financial Statements

KENTUCKY HOUSING CORPORATION
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2023
(Dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Healthy at Home Eviction Relief Fund 2.0	Weatherization Assistance	Rental Assistance	Homeowner Assistance	Other Housing Funds	Combined Totals
ASSETS								
Current Assets								
Cash and cash equivalents	$ 405	$ 12,557	$ 48,809	$ -	$ 1,550	$ 60,532	$ 851	$ 124,704
Investment securities	14,807	-	-	-	-	-	1,998	16,805
Accounts receivable and other assets	-	308	-	580	-	-	1,321	2,209
Interfund accounts	-	(156)	(254)	(87)	(440)	(119)	(182)	(1,238)
Total Current Assets	15,212	12,709	48,555	493	1,110	60,413	3,988	142,480
Noncurrent Assets								
Program loans	27,457	109,533	-	-	-	-	33,958	170,948
Less loan loss provision	(27,457)	(109,533)	-	-	-	-	(33,958)	(170,948)
Total Noncurrent Assets	-	-	-	-	-	-	-	-
Total Assets	$ 15,212	$ 12,709	$ 48,555	$ 493	$ 1,110	$ 60,413	$ 3,988	$ 142,480
LIABILITIES								
Current Liabilities								
Accounts payable and program advances	$ -	$ 12,689	$ 5,752	$ 493	$ 1,110	$ -	$ 1,139	$ 21,183
Unearned revenue	-	-	42,803	-	-	60,413	-	103,216
Total Current Liabilities	-	12,689	48,555	493	1,110	60,413	1,139	124,399
FUND BALANCE								
Restricted by program requirements	15,212	20	-	-	-	-	2,849	18,081
Total Liabilities and Fund Balance	$ 15,212	$ 12,709	$ 48,555	$ 493	$ 1,110	$ 60,413	$ 3,988	$ 142,480

See Notes to Financial Statements

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – GOVERNMENTAL FUNDS
Year Ended June 30, 2023
(Dollars in thousands)

	Affordable Housing Trust Fund	HOME Program	Healthy at Home Eviction Relief Fund	Healthy at Home Eviction Relief Fund 2.0	Weatherization Assistance	Rental Assistance	Homeowner Assistance	Other Housing Funds	Combined Totals
Revenues									
Federal and state administrative fees	$ -	$ 1,092	$ 1,113	$ 8,485	$ 761	$ 9,161	$ 1,864	$ 1,217	$ 23,693
Pass-through grant revenues	5,526	9,571	(4)	102,748	4,529	178,520	17,365	32,712	350,967
Total Revenues	5,526	10,663	1,109	111,233	5,290	187,681	19,229	33,929	374,660
Expenditures									
General and administrative	-	1,092	1,114	8,485	761	5,432	1,864	1,217	19,965
Pass-through grant expenditures	5,212	9,561	(4)	102,748	4,529	178,520	17,365	33,384	351,315
Total Expenditures	5,212	10,653	1,110	111,233	5,290	183,952	19,229	34,601	371,280
Revenues in Excess of Expenditures	314	10	(1)	-	-	3,729	-	(672)	3,380
Other Financing Sources (Uses)									
Interfund Transfers	-	-	-	-	-	(3,729)	-	-	(3,729)
Change in Fund Balance	314	10	(1)	-	-	-	-	(672)	(349)
Fund Balance, Beginning of Year	14,898	10	1	-	-	-	-	3,521	18,430
Fund Balance, End of Year	$ 15,212	$ 20	$ -	$ -	$ -	$ -	$ -	$ 2,849	$ 18,081

See Notes to Financial Statements

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2023
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
ASSETS				
Current Assets				
Cash and cash equivalents	$ 25,514	$ 379	$ 2,600	$ 28,493
Investment securities	15,047	39,526	490	55,063
Mortgage-backed securities	706	982	-	1,688
Housing mortgage loans held for sale	37,934	-	-	37,934
Housing mortgage loans	10,334	14,572	-	24,906
Housing construction loans	-	-	988	988
Other loans	261	-	-	261
Accounts receivable and other assets	5,221	-	-	5,221
Interfund accounts	(3,762)	-	5,000	1,238
Total Current Assets	91,255	55,459	9,078	155,792
Noncurrent Assets				
Investment securities	-	146,895	-	146,895
Mortgage-backed securities	10,593	14,735	-	25,328
Housing mortgage loans	104,745	205,846	-	310,591
Other loans	2,088	-	-	2,088
Real estate owned-net and related receivables	264	-	-	264
Capital assets	3,589	-	-	3,589
Other noncurrent assets	6,917	-	-	6,917
Total Noncurrent Assets	128,196	367,476	-	495,672
Total Assets	$ 219,451	$ 422,935	$ 9,078	$ 651,464

(Continued)

KENTUCKY HOUSING CORPORATION
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2023
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
LIABILITIES				
Current Liabilities				
Lines of credit	$ 3,500	$ -	$ -	$ 3,500
Accounts payable and other liabilities	1,440	-	-	1,440
Accrued interest payable	-	3,228	-	3,228
Escrows and project reserves	13,532	-	-	13,532
Revenue bonds	-	21,930	-	21,930
Total Current Liabilities	18,472	25,158	-	43,630
Noncurrent Liabilities				
Revenue bonds	-	145,516	-	145,516
Other noncurrent liabilities	12,266	-	-	12,266
Total Noncurrent Liabilities	12,266	145,516	-	157,782
Total Liabilities	30,738	170,674	-	201,412
NET POSITION				
Invested in capital assets	3,589	-	-	3,589
Restricted by				
Revenue bond indenture	-	252,261	-	252,261
Enabling legislation	-	-	9,078	9,078
Unrestricted	185,124	-	-	185,124
Net Position	$ 188,713	$ 252,261	$ 9,078	$ 450,052

See Notes to Financial Statements

KENTUCKY HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS
Year ended June 30, 2023
(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	$ 8,266	$ 10,875	$ 319	$ 19,460
Mortgage-backed securities	89	649	-	738
Marketable securities	859	2,833	18	3,710
Net decrease in fair value of securities	(851)	(4,844)	-	(5,695)
Gains on sales of loans held for sale	18,324	-	-	18,324
Fees, charges and other income	20,744	67	-	20,811
Total Operating Revenues	47,431	9,580	337	57,348
Operating Expenses				
Interest on revenue bonds and lines of credit	350	5,853	-	6,203
Provision for losses on loans	1,971	-	-	1,971
General and administrative	20,892	139	-	21,031
Housing assistance grants	1,595	-	-	1,595
Mortgage loan servicers' fees	57	853	-	910
Loan origination costs	9,917	-	-	9,917
Total Operating Expenses	34,782	6,845	-	41,627
Operating Income (Loss)	12,649	2,735	337	15,721
Nonoperating revenues (expenses)				
Interfund Transfers	6,729	(3,000)	-	3,729
Change in Net Position	19,378	(265)	337	19,450
	-			
Net Position, Beginning of Year	169,335	252,526	8,741	430,602
Net Position, End of Year	$ 188,713	$ 252,261	$ 9,078	$ 450,052

See Notes to Financial Statements

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2023
(Dollars in thousands)

	General Funds	Housing Revenue Bond Funds	Housing Development Fund	Combined Totals
Cash Flows From Operating Activities				
Interest income on loans	$ 8,267	$ 10,875	$ 319	$ 19,461
Gain on sales of loans held for sale	16,404	-	-	16,404
Fees, charges and other income	24,897	-	-	24,897
Personnel costs	(17,180)	-	-	(17,180)
Operating expenses	(16,201)	(992)	-	(17,193)
Housing assistance grants	(1,595)	-	-	(1,595)
Fundings of housing mortgage loans	(537,050)	-	-	(537,050)
Repayments on housing mortgage loans	43,487	29,480	-	72,967
Conversion of mortgage loans to mortgage-backed securities and loans sold on secondary market	489,414	-	-	489,414
Net changes in housing construction loans	-	-	164	164
Other, net	(1,064)	3	-	(1,061)
Net Cash Provided By Operating Activities	9,379	39,366	483	49,228
Cash Flows From Noncapital Financing Activities				
Proceeds from lines of credit and issuance of revenue bonds	224,550	-	-	224,550
Principal payments on revenue bonds and line of credit	(224,650)	(20,505)	-	(245,155)
Interest payments on lines of credit and revenue bonds	(350)	(4,469)	-	(4,819)
Changes in escrows and project reserves	(6,092)	-	-	(6,092)
Interfund transfers	6,729	(3,000)	-	3,729
Net Cash Provided By (Used In) Noncapital Financing Activities	187	(27,974)	-	(27,787)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(583)	-	-	(583)
Cash Flows From Investing Activities				
Purchases of investments and mortgage-backed securities	(726,022)	(86,750)	(16)	(812,788)
Sales of investments and mortgage-backed securities	710,605	71,919	-	782,524
Interest received on investments and mortgage-backed securities	823	3,388	16	4,227
Net Cash Provided By (Used In) Investing Activities	(14,594)	(11,443)	-	(26,037)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,611)	(51)	483	(5,179)
Cash and Cash Equivalents, Beginning of Year	31,125	430	2,117	33,672
Cash and Cash Equivalents, End of Year	$ 25,514	$ 379	$ 2,600	$ 28,493

(Continued)

KENTUCKY HOUSING CORPORATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2023
(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 (loss)	$ 12,649	$ 2,735	$ 337	$ 15,721
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Gain related to servicing intangible asset	(1,920)	-	-	(1,920)
Provision for losses on loans	1,971	-	-	1,971
Amortization of intangible asset	1,465	-	-	1,465
Depreciation expense	282	-	-	282
Interest expense on lines of credit and revenue bonds	350	5,853	-	6,203
Interest income on mortgage-backed securities	(89)	(649)	-	(738)
Interest income on marketable securities	(859)	(2,833)	(18)	(3,710)
Net decrease in fair value of marketable securities	851	4,844	-	5,695
Other income	-	(67)	-	(67)
Changes in operating assets and liabilities:				
Fundings of housing mortgage loans	(537,050)	-	-	(537,050)
Repayments on housing mortgage loans	43,487	29,480	-	72,967
Conversion of mortgage loans to mortgage backed securities and loans sold on secondary market	489,414	-	-	489,414
Housing construction loans	-	-	164	164
Other, net	(1,172)	3	-	(1,169)
Net Cash Provided By Operating Activities	$ 9,379	$ 39,366	$ 483	$ 49,228

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF FIDUCIARY FUNDS NET POSITION
Year Ended June 30, 2023
(Dollars in thousands)

	Custodial Funds
ASSETS	
Current Assets	
Cash and cash equivalents	$ 62,416
Total Assets	62,416
LIABILITIES	
Current Liabilities	
Accounts payable and other liabilities	-
Escrows and project reserves	1,482
Total Liabilities	1,482
NET POSITION	
Restricted by	
Individuals and organizations	60,934
Unrestricted	-
Net Position	$ 60,934

See Notes to Financial Statements.

KENTUCKY HOUSING CORPORATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2023
(Dollars in thousands)

	Custodial Funds
ADDITIONS	
Escrows and project reserves	$ 144,652
Total Additions	144,652
DEDUCTIONS	
Payments of property tax to other governments, insurance premiums, and replacement reserve disbursements	143,466
Total Deductions	143,466
Change in Net Position	1,186
Net Position, Beginning of Year	59,748
Net Position, End of Year	$ 60,934

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 Annual Comprehensive Financial Report.

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

Note B--Summary of Significant Accounting Policies

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

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

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

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.

Eviction Relief Funds: 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, including the Secondary Market Mortgage Purchase program. Fund net position is generally unrestricted.

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

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 24-25 in accordance with GASB Statement No. 84.

<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.

The Corporation securitized most of its government insured housing mortgage loan originations into mortgage-backed securities through the Government National Mortgage Association ("GNMA"). The Corporation retains ownership of $15,460 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. 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.

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.

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

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

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

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

Buildings	30 to 40 years
Equipment	3 to 10 years

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

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

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.

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

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 2023. 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.

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.

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. 91, *Conduit Debt Obligations*, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and GASB Statement No. 99, *Omnibus 2022*, for the fiscal year ending June 30, 2023. The implementation of the GASB's had no effect on the Corporation.

(Dollars in thousands)

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

GASB standards that are under evaluation include:

GASB Statement No. 100, *Accounting Changes and Error Corrections*, is effective for the fiscal year ending June 30, 2024, GASB 101, *Compensated Absences*, is effective for the fiscal year ending June 30, 2025. The Corporation's financial statements 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, 2023, the carrying amount of the Corporation's cash and cash equivalents was $153,197 and the bank balance was $150,024. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the $150,024 bank balance, $10,040 was covered by federal depository insurance and $139,984 was collateralized. For the funds collateralized by the financial institutions, the collateral equals or exceeds at least 102% of the value of the uninsured funds on deposit as required by the Corporation's investment policies, and the collateral is held by the financial institutions or a third party in the name of the Corporation.

Cash and cash equivalents of approximately $140,255 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, $124,704 is restricted in governmental activities and $15,551 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 $62,416.

Investment and Mortgage-Backed Securities: At June 30, 2023 the Corporation has the following:

Investment Type	Fair Value	Effective Duration (in Years)
U.S. government-sponsored enterprises	$ 146,895	1.52
Mortgage-backed securities	27,016	0.54
Money market funds	71,868	0.00
Total Investment and Mortgage-Backed Securities	245,779	2.06
Less amounts shown as current assets	73,556	
Noncurrent Investment and Mortgage-Backed Securities	$ 172,223	

(Dollars in thousands)

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

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, 2023:

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.

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, 2023 consist of the following:

Issuer	Fair Value	Percentage of Portfolio
U.S. government-sponsored enterprises	$ 146,895	60%
Dreyfus	71,868	29%
GNMA	27,016	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 $15,460 as of June 30, 2023, 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.

(Dollars in thousands)

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

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Corporation has the following recurring fair value measurements as of June 30, 2023:

		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	$ 146,895	$ -	$ 146,895	$ -
Mortgage-backed securities	27,016	-	27,016	-
Total investments by fair value	173,911	$ -	$ 173,911	$ -
Investments by amortized cost	71,868			
Total investments	$ 245,779			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Total investments by amortized cost consist of amounts invested in overnight money market funds.

Note D--Housing Mortgage Loans

Housing mortgage loans at June 30, 2023 consist of the following:

Housing Revenue Bond Funds:	
Single-family (A)	$ 209,591
Multifamily (B)	11,572
Total Housing Revenue Bond Funds	221,163
General Funds (C)	128,351
Total Principal	349,514
Add accrued interest receivable on loans	790
Total Principal and Accrued Interest	350,304
Less allowance for loan losses	(14,807)
Net Housing Mortgage Loans	365,111
Less amount shown as current assets	(24,906)
Noncurrent Housing Mortgage Loans	$ 310,591

(Dollars in thousands)

Note D--Housing Mortgage Loans (Continued)

Additional information related to loans includes:

Note (A) Single-family includes $202,481 in federally insured or guaranteed loans, $6,579 of non-insured loans with initial loan-to-value ratios less than 90%, and $531 of loans backed by private mortgage insurance.

Note (B) Multifamily includes $9,946 in federally insured or guaranteed loans and $1,626 in non-insured loans.

Note (C) General Funds include $43,490 in federally insured or guaranteed loans and $84,861 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 $919.

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 $1,821.

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, 2023, the Corporation is committed to make single-family mortgage loans totaling $117,379. The Corporation had $122,552 in outstanding commitments to sell single-family loans at June 30, 2023.

Note F--Loan Servicing

In addition to the GNMA mortgage-backed securities portfolios that the Corporation services for its own account (See Note C), the Corporation was servicing the following for other investors at June 30, 2023:

Servicing Type	Number of Loans	Amounts
GNMA mortgage-backed securities	17,484	$ 2,141,199
Fannie Mae mortgage-backed securities	538	26,671
Fannie Mae whole loans	4,041	494,689
	22,063	$ 2,662,559

(Dollars in thousands)

Note F--Loan Servicing (Continued)

Included in Fannie Mae mortgage-backed securities totals are loans totaling $3,599 on which the Corporation has retained full default risk on the underlying loans and additional loans totaling $4,772 on which the Corporation has retained default risk subject to a stop loss agreement with Fannie Mae.

Servicing rights totaling $6,917 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, 2023 and activity during the year follows:

Business-Type Activities	Balance July 1, 2022	Additions	Retirements and Dispositions	Balance June 30, 2023
Land	$ 1,089	$ -	$ -	$ 1,089
Buildings	6,243	274	-	6,517
Equipment	3,523	309	(10)	3,822
Less accumulated depreciation	(7,567)	(282)	10	(7,839)
Net Capital Assets	$ 3,288	$ 301	$ -	$ 3,589

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

Note H--Lines of Credit

The Corporation's lines of credit at June 30, 2023 and activity during the year follows:

Business-Type Activities	Balance July 1, 2022	Borrowings	Repayments and Dispositions	Balance June 30, 2023
Loan Warehousing Line of Credit 1	$ 2,500	$ 1,500	$ (2,500)	$ 1,500
Loan Warehousing Line of Credit 2	1,100	223,050	(222,150)	2,000
	$ 3,600	$ 224,550	$ (224,650)	$ 3,500

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 Term Secured Overnight Financing Rate ("Term SOFR") rounded up to the nearest 1/16% or 0%, plus 80 basis points 6.1375% at June 30, 2023), matures on June 30, 2023, had $23,500 of unused credit at June 30, 2023, and contains a non-usage fee of .20% of the unused amount.

(Dollars in thousands)

Note H--Lines of Credit (Continued)

Loan Warehousing Line of Credit 2 provides for borrowings up to $65,000, bears interest based on the greater of one-month Bloomberg Short-Term Bank ("BSBY") or 0%, plus 40 basis points (5.6157% at June 30, 2023), matures on June 30, 2023, had $63,000 unused credit at June 30, 2023, and contains a non-usage fee of .125% 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.

Note I--Revenue Bonds and Other Noncurrent Liabilities

Revenue Bonds: Revenue bonds at June 30, 2023 and the activity for the year then ended consist of the following:

	Original Face Amount	Balance July 1, 2022	Issued	Repaid/ Retired	Balance June 30, 2023	Amount Due Within One Year
Housing Revenue Bonds:						
2006 Series O:						
2024-2036, variable	$ 29,035	$ 12,520	$ -	$ 305	$ 12,215	$ 645
2006 Series T:						
2024-2038, variable	23,300	7,025	-	145	6,880	300
2006 Series W:						
2024-2038, variable	38,380	9,975	-	200	9,775	415
2007 Series J:						
2024-2038, variable	17,130	10,880	-	215	10,665	460
2007 Series O:						
2024-2038, variable	10,000	5,045	-	90	4,955	190
2013 Series C:						
2024, 3.522%	36,470	3,335	-	2,080	1,255	1,255
2013 Series D:						
2024-2033, 3.20% to 3.75%	49,410	7,580	-	740	6,840	1,210
2014 Series A:						
2024-2030, 3.248% to 3.948%	61,445	17,745	-	2,605	15,140	5,375
2014 Series B:						
2024-2037, 3.178% to 4.00%	30,000	10,105	-	930	9,175	1,225
2016 Series A:						
2024-2040, 2.652% to 3.500%	72,465	35,000	-	7,485	27,515	2,520
2016 Series B:						
2024-2038, 3.005% to 4.00%	41,110	13,625	-	2,440	11,185	1,730
2021 Series A:						
2024-2026, 0.550% to 1.25%	23,410	18,630	-	3,270	15,360	6,605
2021 Series B:						
2033-2042, variable	36,150	36,150	-	-	36,150	-
Total Housing Revenue Bonds	$ 173,135	187,615	$ -	$ 20,505	167,110	$ 21,930
Unamortized premium		440			336	
Net Revenue Bonds		$ 188,055			$ 167,446	

(Dollars in thousands)

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

As indicated in the above table, bond issues totaling $80,640 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 $127,847 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, 2023, 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,			
2024	$ 21,930	$ 3,651	$ 25,581
2025	18,790	3,289	22,079
2026	13,640	2,911	16,551
2027	10,210	2,586	12,796
2028	7,835	2,285	10,120
Five years ending June 30,			
2029-2033	34,125	7,989	42,114
2034-2038	49,640	2,583	52,223
2039-2042	10,940	69	11,009
	$ 167,110	$ 25,363	$ 192,473

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.

(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, 2022	Additions	Reductions	Balance June 30, 2023
Other noncurrent liabilities	$ 12,687	$ 280	$ (701)	$ 12,266

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, 2023, conduit debt obligations totaling approximately $1,319,731 has been issued with an aggregate remaining outstanding principal balance of $577,925. The debt does not constitute a liability or a pledge of faith and credit of the Corporation and, accordingly, has not been reported in the Corporation-wide financial statements.

Note K—Defined Contribution Plan

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. Employees 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. For fiscal year 2023, 100% of up to 4% of employee elected deferrals into the 401(k) plan will be matched by the corporation. The Corporation recorded a contribution expense of $649 for fiscal year 2023.

Note L--Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by various commercial insurance policies. There have been no reductions in insurance coverage during the year ended June 30, 2023. Settlements have not exceeded insurance coverage.

Note M--Subsequent Events

The Corporation evaluated events occurring between the end of its most recent fiscal year and September 30, 2023, the date the financial statements were issued.

Note M--Subsequent Events (Continued)

In March 2023, Kentucky's Governor announced that Kentucky Housing Corporation would be receiving $20 million to administer the Rural Housing Trust Fund. These funds will be used subsequent to June 30, 2023 to build and rehabilitate housing in Western and Eastern Kentucky affected by the natural disasters in 2021 and 2022.

Note N--Contingencies

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

In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules, and regulations of federal and state legislative and regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress, or an administrative change mandated by HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

SUPPLEMENTARY COMBINING INFORMATION
HOUSING REVENUE BOND FUNDS

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF NET POSITION - HOUSING REVENUE BOND FUNDS
June 30, 2023
(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
ASSETS								
Current Assets								
Cash and cash equivalents	$ 301	$ -	$ -	$ 78	$ -	$ -	$ -	$ 379
Investment securities	3,937	1,492	5,199	6,435	9,771	-	12,692	39,526
Mortgage-backed securities	260	-	-	722	-	-	-	982
Housing mortgage loans	12,784	-	-	-	1,788	-	-	14,572
Interfund accounts	(3,717)	1,684	1,724	-	319	-	(10)	-
Total Current Assets	13,565	3,176	6,923	7,235	11,878	-	12,682	55,459
Noncurrent Assets								
Investment securities	-	-	-	146,895	-	-	-	146,895
Mortgage-backed securities	3,904	-	-	10,831	-	-	-	14,735
Housing mortgage loans	176,147	-	-	-	29,699	-	-	205,846
Real estate owned and related receivables	-	-	-	-	-	-	-	-
Total Noncurrent Assets	180,051	-	-	157,726	29,699	-	-	367,476
Total Assets	193,616	3,176	6,923	164,961	41,577	-	12,682	422,935
LIABILITIES								
Current Liabilities								
Accounts payable and other liabilities	-	-	-	-	-	-	-	-
Accrued interest payable	-	-	3,228	-	-	-	-	3,228
Revenue bonds	21,930	-	-	-	-	-	-	21,930
Total Current Liabilities	21,930	-	3,228	-	-	-	-	25,158
Noncurrent Liabilities								
Revenue bonds	145,516	-	-	-	-	-	-	145,516
Other noncurrent liabilities	-	-	-	-	-	-	-	-
Total Noncurrent Liabilities	145,516	-	-	-	-	-	-	145,516
Total Liabilities	167,446	-	3,228	-	-	-	-	170,674
FUND NET POSITION								
Restricted by revenue bond indenture	$ 26,170	$ 3,176	$ 3,695	$ 164,961	$ 41,577	$ -	$ 12,682	$ 252,261

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, 2023
(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	$ 10,216	$ -	$ -	$ -	$ 659	$ -	$ -	$ 10,875
Mortgage-backed securities	166	-	-	483	-	-	-	649
Marketable securities	22	134	176	1,990	328	146	37	2,833
Net increase (decrease) in fair value of securities	(223)	-	-	(4,621)	-	-	-	(4,844)
Other income	67	-	-	-	-	-	-	67
Total Operating Revenues	10,248	134	176	(2,148)	987	146	37	9,580
Operating Expenses								
Interest on revenue bonds	-	-	5,853	-	-	-	-	5,853
General and administrative	139	-	-	-	-	-	-	139
Mortgage loan servicers' fees	727	-	-	-	126	-	-	853
Loan origination costs	-	-	-	-	-	-	-	-
Total Operating Expenses	866	-	5,853	-	126	-	-	6,845
Operating Income (Loss)	9,382	134	(5,677)	(2,148)	861	146	37	2,735
Interfund Transfers	(15,492)	(1,999)	4,506	-	(2,514)	(146)	12,645	(3,000)
Change in Fund Net Position	(6,110)	(1,865)	(1,171)	(2,148)	(1,653)	-	12,682	(265)
Fund Net Position, Beginning of Year	32,280	5,041	4,866	167,109	43,230	-	-	252,526
Fund Net Position, End of Year	$ 26,170	$ 3,176	$ 3,695	$ 164,961	$ 41,577	$ -	$ 12,682	$ 252,261

See Independent Auditor's Report.

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2023
(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	$ 10,216	$ -	$ -	$ -	$ 659	$ -	$ -	$ 10,875
Operating expenses	(866)	-	-	-	(126)	-	-	(992)
Fundings of housing mortgage loans	-	-	-	-	-	-	-	-
Repayments on housing mortgage loans	25,640	-	-	-	3,840	-	-	29,480
Other, net	157	280	(501)	-	58	-	9	3
Net Cash Provided By Operating Activities	35,147	280	(501)	-	4,431	-	9	39,366
Cash Flows From Noncapital Financing Activities								
Principal payments on revenue bonds	-	-	(20,505)	-	-	-	-	(20,505)
Interest payments on revenue bonds	-	-	(4,469)	-	-	-	-	(4,469)
Interfund transfers - loan collections and investment income	(36,408)	15,783	20,321	-	(2,513)	(146)	(37)	(3,000)
Interfund transfers - retirement of debt	375	(17,782)	4,725	-	-	-	12,682	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(36,033)	(1,999)	72	-	(2,513)	(146)	12,645	(27,974)
Cash Flows From Investing Activities								
Purchases of investments and mortgage-backed securities	(1,169)	(16,344)	(29,158)	(4,289)	(2,486)	-	(33,304)	(86,750)
Sales of investments and mortgage-backed securities	1,832	17,954	29,445	1,793	273	-	20,622	71,919
Interest received on investments and mortgage-backed securities	172	109	142	2,496	295	146	28	3,388
Net Cash Provided By (Used In) Investing Activities	835	1,719	429	-	(1,918)	146	(12,654)	(11,443)
Net Increase (Decrease) in Cash and Cash Equivalents	(51)	-	-	-	-	-	-	(51)
Cash and Cash Equivalents, Beginning of Year	352	-	-	78	-	-	-	430
Cash and Cash Equivalents, End of Year	$ 301	$ -	$ -	$ 78	$ -	$ -	$ -	$ 379

(Continued)

KENTUCKY HOUSING CORPORATION
COMBINING STATEMENT OF CASH FLOWS – HOUSING REVENUE BOND FUNDS
Year Ended June 30, 2023
(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)	$ 9,382	$ 134	$ (5,677)	$ (2,148)	$ 861	$ 146	$ 37	$ 2,735
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Interest expense on revenue bonds	-	-	5,853	-	-	-	-	5,853
Interest income on mortgage-backed securities	(166)	-	-	(483)	-	-	-	(649)
Interest income on marketable securities	(22)	(134)	(176)	(1,990)	(328)	(146)	(37)	(2,833)
Net decrease in fair value of securities	223	-	-	4,621	-	-	-	4,844
Other income	(67)	-	-	-	-	-	-	(67)
Changes in operating assets and liabilities:								
Repayments on housing mortgage loans	25,640	-	-	-	3,840	-	-	29,480
Other, net	157	280	(501)	-	58	-	9	3
Net Cash Provided By Operating Activities	$ 35,147	$ 280	$ (501)	$ -	$ 4,431	$ -	$ 9	$ 39,366

See Independent Auditor's Report.