New York State
Affordable Housing Corporation

AHC

Financial Statements

Fiscal Year

2014

NEW YORK STATE AFFORDABLE HOUSING CORPORATION

(A Component Unit of the State of New York)

Financial Statements

Fiscal Year Ended March 31, 2014

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RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the New York State Affordable Housing Corporation (the "Corporation"), for the fiscal years ended March 31, 2014 and 2013, are the responsibility of management. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Corporation maintains a system of internal control. The objectives of an internal control system are to provide reasonable assurance as to the protection of, and accountability for, assets; compliance with applicable laws and regulations; proper authorization and recording of transactions; and the reliability of financial records for preparing financial statements. The system of internal control is subject to periodic review by management and the internal audit staff.

The Corporation's annual financial statements have been audited by Ernst & Young LLP, independent auditors appointed by the Members of the Corporation. Management has made available to Ernst & Young LLP all the financial records and related data of the Corporation as well as having provided access to all the minutes of the meetings of the Members of the Corporation. The independent auditors periodically meet with the Members of the Corporation.

The independent auditors conducted their audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. The audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, the independent auditors do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting. The audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The independent auditors' unmodified report expresses that the financial statements are presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Darryl C. Towns
President/Chief Executive Officer

Sheila Robinson
Senior Vice President/Chief Financial Officer

June 12, 2014

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Report of Independent Auditors

Management and Members of the Board
New York State Affordable Housing Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the New York State Affordable Housing Corporation (the "Corporation"), a component unit of the State of New York, as of and for the years ended March 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of March 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated June 12, 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Ernst + Young LLP

June 12, 2014

A member firm of Ernst & Young Global Limited

NEW YORK STATE AFFORDABLE HOUSING CORPORATION
(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following is a narrative overview of the financial performance of the New York State Affordable Housing Corporation's (the "Corporation") for the fiscal year ended March 31, 2014 and 2013 with selected comparative information for the fiscal year ended March 31, 2012. This analysis must be read in conjunction with the financial statements.

The annual financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the financial statements; and (3) the notes to the financial statements.

The Corporation's financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Management's Discussion and Analysis

- This section of the Corporation's financial statements, Management's Discussion and Analysis (the "MD&A"), presents an overview of the Corporation's financial performance during the fiscal year ended March 31, 2014 compared with the fiscal year ended March 31, 2013 and fiscal year ended March 31, 2012. It provides a discussion of financial highlights and an assessment of how the Corporation's financial position has changed from past years. It identifies the factors that, in management's view, significantly affected the Corporation's overall financial position. It may contain opinions, assumptions or conclusions by the Corporation's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements and other information described below.

The Financial Statements

- The "Statements of Net Position" provides information about the liquidity and solvency of the Corporation by indicating the assets, liabilities and net position.
- The "Statements of Revenues, Expenses and Changes in Net Position" accounts for all of the current year's revenues and expenses in order to measure the success of the Corporation's operations over the past year. It can be used to determine how the Corporation has funded its costs. By presenting the financial performance of the Corporation, the change in net position is similar to net profit or loss for a business.
- The "Statements of Cash Flows" is presented on the direct method of reporting. It provides information about the Corporation's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and

financing activities. Cash collections and payments are presented in this statement to arrive at the net increases or decreases in cash for each year.

The Notes to the Financial Statements

- The notes provide information that is essential to understanding the financial statements, such as the Corporation's accounting methods and policies providing information about the content of the financial statements.
- Details are included of contractual obligations, future commitments and contingencies of the Corporation.
- Information is given regarding any other events or developing situations that could materially affect the Corporation's financial position.

General Introduction

The Corporation is a public benefit Corporation of the State of New York (the "State") and is a subsidiary of the New York State Housing Finance Agency (the "Agency"). The Corporation administers the Affordable Home Ownership Development Program (the "Program"). The Program was designed to make home ownership affordable to low and moderate income families and individuals for whom there are no other reasonable and affordable home ownership alternatives in the private market. The Corporation's goal is to provide financial assistance, in conjunction with other public and private investments, for new construction, acquisition/rehabilitation, and home improvement of owner-occupied housing. The Corporation's assistance also promotes development, stabilization and preservation of neighborhoods and communities.

Financial Highlights – Fiscal 2014 and Fiscal 2013

Appropriations

On an annual basis the Governor and the State Legislature appropriate an amount which is available to the Corporation to fund housing grants. Such appropriations are available to fund housing grants in current and future periods. The annual appropriation amount for fiscal 2014, fiscal 2013 and fiscal 2012 was approximately $25 million.

Grant Awards

Using funds appropriated by the Governor and the State Legislature in the State Budget, the Corporation approved awards totaling $11,751,100 to create or renovate 530 units of affordable housing for low-and moderate-income people. The awards were made possible by combining the Corporation's annual budgeted appropriation with recaptured funds from previous grants that were not used. The 2014 awards were made in 16 counties across the State.

Grants are typically used to subsidize the purchase price of a new home, co-op or condominium, or for needed repairs. Subsidies range up to $40,000 per home. The grants generally help households with incomes up to 90% of the local "Area Median Income".

The Corporation offers three types of grant programs: Home Improvement, New Construction and Acquisition/Rehabilitation.

As noted above, the Corporation approved awards totaling approximately $11.7 million in fiscal 2014 as compared to $26.0 million in fiscal 2013, a decrease of $14.3 million, or 55%. The decrease in fiscal 2014 was the result of a reduction of general activity in all regions of the State (with the exception of Long Island, which saw a slight increase), along with a delay in the availability of State Fiscal Year 2013-2014 AHC Program Funds, which were not made available for application until October 2013, with applications due in January 2014. The Agency anticipates the number of units funded will return to historical norms in Fiscal 2015. Beginning in May 2014, new awards are expected to be processed using funds made available from the State Fiscal Year 2013-2014 allocation.

	Fiscal Year 2014		Fiscal Year 2013	
Region	Units	Awards	Units	Awards
New York City	154	$ 5,432,500	346	$ 8,460,000
Finger Lakes	160	1,050,000	197	1,956,352
Western New York	65	1,277,000	184	2,707,685
Central New York	-	-	156	2,301,487
Long Island	112	2,920,000	156	2,380,000
Southern Tier	22	605,000	154	2,123,603
North Country	-	-	109	1,779,004
Mid-Hudson	-	-	95	3,175,000
Capital Region	11	311,600	54	790,000
Mohawk Valley	6	155,000	49	367,000
Total	530	$ 11,751,100	1,500	$ 26,040,131

Grant Expense

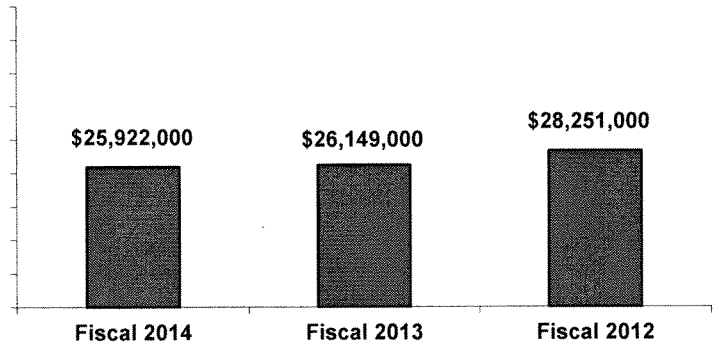
A three year comparison of housing grant expenses is shown in the Condensed Statements of Revenues, Expenses and Changes in Net Position.

Grant expenses represent the amount of previously awarded funds approved for payment during the fiscal year. Grant Awards are not approved for payment until such funds are required by the individual grantees. Since the disbursement of individual Grant Awards can overlap fiscal years, there are timing differences between grants awarded and grants expensed.

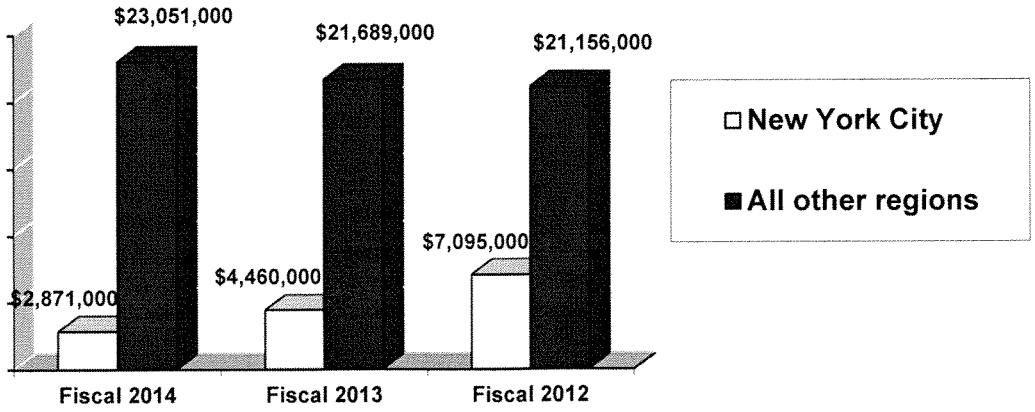
Grant expenses fluctuate from year to year as a result of the timing of the payment of awarded funds to grantees. The amount shown as grant expense has decreased from $26.1 million in fiscal 2013 to $25.9 million in fiscal 2014, a decrease of approximately $200 thousand, or 0.7%, as compared with $28.3 million in fiscal 2012 to $26.1 million in fiscal 2013, a decrease of $2.2 million, or 7.8%.

See the charts below for details of housing grants.

Total Housing Grant Expense



Housing Grants Expensed - By Region



Condensed Financial Information
New York State Affordable Housing Corporation
Condensed Statements of Net Position
(In thousands)

	March 31,			% Change	
	2014	2013	2012	2014-13	2013-12
Current Assets	$ 18,532	$ 22,222	$ 19,908	(17%)	12%
Non-Current Assets - Investments	20,636	15,787	19,720	31%	(20%)
Total Assets	39,168	38,009	39,628	3%	(4%)
Total Liabilities - Current	4,881	3,055	2,904	60%	5%
Total Restricted Net Position	$ 34,287	$ 34,954	$ 36,724	(2%)	(5%)

Assets

Current Assets

Current assets are comprised primarily of short term investments and include both U.S. Treasury Bills and Government Securities. Funds invested in U.S. Treasury Bills vary throughout the year as funding levels are reviewed to correspond as closely as possible to anticipated disbursements. As of March 31, 2014 and 2013, short term investments were held in the amounts of $17.6 million and $20.7 million (excluding accrued interest receivable), respectively, representing a decrease of $3.1 million, or 15.0%, as compared with an increase from $18.5 million as of March 31, 2012 to $20.7 million as of March 31, 2013, an increase of $2.2 million, or 11.9%.

Non-Current Assets

Accumulated funds returned by grantees and homeowners are restricted for program purposes and whenever possible are invested in long term government securities. Such investments are included in non-current assets. Non-current investments increased from $15.8 million as of March 31, 2013 to $20.6 million as of March 31, 2014, an increase of $4.8 million, or 30.4%, as compared with a decrease from $19.7 million as of March 31, 2012 to $15.8 million as of March 31, 2013, a decrease of $3.9 million, or 19.8%.

Investments

The Corporation's funds are invested in accordance with the investment guidelines approved annually by the Corporation's Board Members. The investment guidelines are in compliance with the New York State Comptroller's Investment Guidelines. The Corporation's investment objective is to obtain competitive, favorable rates for optimal time periods to ensure maximum returns within the constraints of the Corporation's investment guidelines and projected cash flow needs.

Investments are recorded at fair value and represent approximately 98% of total assets.

Liabilities

Payable to the New York State Housing Finance Agency

The payable due to the Agency increased from $2.2 million in fiscal 2013 to $3.2 million in fiscal 2014, an increase of approximately $1 million, or 45.5%, as compared with an increase from $1.8 million in fiscal 2012 to $2.2 million in fiscal 2013, an increase of $400 thousand, or 22.2%. Amounts are paid pursuant to the service agreement with the Agency from funds made available through administrative fees and investment income. The payable has been increasing primarily as a result of declining investment income which is a result of declining yields earned on investments purchased.

Housing Grants Payable

Due to the timing of the disbursement of approved housing grants, housing grants payable increased from $832 thousand in 2013 to $1.7 million in 2014, an increase of approximately $868 thousand, or 104.3%. This amount represents approved payments due to grantees at the end of the fiscal year and paid within the first two weeks of the following fiscal year.

New York State Affordable Housing Corporation
Condensed Statements of Revenues, Expenses and Changes in Net Position
(In thousands)

	Fiscal Year Ended March 31,			% Change	
	2014	2013	2012	2014-13	2013-12
Operating Revenues:					
Appropriations Received from the State for:					
Housing Grants	$ 24,725	$ 24,725	$ 24,725	—	—
Administrative fee	275	275	275	—	—
Repayment Funds Received from Homeowners	1,551	961	1,257	61%	(24%)
Recaptured Funds Returned by Grantees	433	170	273	155%	(38%)
Investment Income and Unrealized Loss on the Fair value of investments	242	169	602	43%	(72%)
Operating Expenses:					
Housing Grants	(25,922)	(26,149)	(28,251)	(1%)	(7%)
Salaries and Other Operating Expenses	(1,971)	(1,921)	(2,042)	3%	(6%)
Decrease in Restricted Net Position	$ (667)	$ (1,770)	$ (3,161)	(62%)	(44%)

"—" indicates a percentage of less than 1%

Operating Revenues

Appropriations Received for Housing Grants

Appropriations received for housing grants and administrative fees remained unchanged from fiscal 2012 through fiscal 2014 Appropriations received for housing grants represent funds budgeted for by the State and received by the Corporation to accomplish the goals of the Corporation. The amount received for administrative fee is available to fund salaries and other operating expenses of the Corporation. Funds received by the Corporation may vary from year to year as funds are drawn down from the State.

Repayment Funds Received from Homeowners

Homeowners receiving a grant from the Corporation to assist in the purchase of their home are required to occupy the home as their principal place of residence for the period specified under the terms and conditions of the Corporation's Note and Mortgage. If the home is not occupied for the specified period, the grant funds received by the homeowner towards the purchase of their home are required to be repaid. The repayment amount due is based on a formula established by the Corporation. The amount of the repayment due to the Corporation declines during the term of the Note and Mortgage. Once the homeowner occupies the home as their principal place of residence for the period specified, a repayment is no longer required.

In addition, when homeowners borrow funds against the equity in their home, a repayment may be required.

Repayment funds received from homeowners increased from $961 thousand in fiscal 2013 to $1.55 million in fiscal 2014, an increase of approximately $590 thousand, or 61.4%, as compared with a decrease from $1.26 million in fiscal 2012 to $961 thousand in fiscal 2013, a decrease of $299 thousand, or 23.5%. The variances are a result of annual fluctuations in the number of homeowners who were required to submit repayments and the amounts required to be repaid, whether as a result their home not being occupied for the specified period of or the receipt of proceeds from an equity loan, in accordance with the terms and conditions of the Corporation's Note and Mortgage.

Recaptured Funds Returned by Grantees

Grant funds awarded and distributed to grantees are recaptured when such grant funds disbursed to a grantee are not used for the purpose specified by the Grant Agreement. Once recaptured funds are returned to the Corporation, the funds can be awarded to other grantees. Recaptured funds received from grantees increased from $170 thousand in fiscal 2013 to $433 thousand in fiscal 2014, an increase of approximately $263 thousand, or 154.7%, as compared with a decrease from $273 thousand in fiscal 2012 to $170 thousand in fiscal 2013, a decrease of $103 thousand, or 37.7%. The variances are a result of changes in the number of grantees required to repay grant funds and the amount of funds recaptured in each fiscal year, the timing of which result in fluctuations.

Operating Expenses

Salaries and Other Operating Expenses

Administrative salaries and other expenses allocated to the Corporation remained unchanged from 2013 to 2014 at approximately $1.9 million, representing 97.5 % of operating expenses. Administrative salaries and other expenses allocated to the Corporation decreased from $2 million in fiscal 2012 to $1.9 million in fiscal 2013, a decrease of $100 thousand, or 5.0% and represents 97.6% of operating expenses

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NEW YORK STATE AFFORDABLE HOUSING CORPORATION
(A Component Unit of the State of New York)

STATEMENTS OF NET POSITION

	March 31, 2014	March 31, 2013
	(In thousands)	
Assets		
Current assets		
Cash	$ 760	$ 1,280
Investments	17,598	20,694
Accrued interest receivable	174	248
Total current assets	18,532	22,222
Non-current assets		
Investments	20,636	15,787
Total assets	**39,168**	**38,009**
Liabilities		
Current liabilities		
Accrued expenses	27	21
Payable to the New York State Housing Finance Agency	3,180	2,202
Housing grants payable	1,674	832
Total liabilities	**4,881**	**3,055**
Net position		
Restricted for program grants	$ 34,287	$ 34,954

See notes to financial statements.

NEW YORK STATE AFFORDABLE HOUSING CORPORATION
(A Component Unit of the State of New York)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended March 31, 2014	2013
	(In thousands)	
Operating revenues		
Appropriations received from the State for:		
Housing grants	$ 24,725	$ 24,725
Administrative fees	275	275
Repayment funds received from homeowners	1,551	961
Recaptured funds returned by grantees	433	170
Investment income	1,225	1,383
Total operating revenues	**28,209**	**27,514**
Operating expenses		
Housing grants	25,922	26,149
Administrative salaries	1,913	1,875
Amortization of discounts and premiums on investments	808	714
Unrealized loss on the fair value of investments	175	500
Other administrative expenses	58	46
Total operating expenses	**28,876**	**28,570**
Change in net position	**(667)**	**(1,770)**
Total net position - beginning of fiscal year	34,954	36,724
Total net position - end of fiscal year	**$ 34,287**	**$ 34,954**

See notes to financial statements.

NEW YORK STATE AFFORDABLE HOUSING CORPORATION
(A Component Unit of the State of New York)
STATEMENTS OF CASH FLOWS

	Fiscal Year Ended March 31, 2014	Fiscal Year Ended March 31, 2013
	(In thousands)	
Cash flows from operating activities		
Repayment funds received from homeowners	$ 1,551	$ 961
Recaptured funds returned by grantees	433	170
Administrative expenses	(987)	(1,565)
Appropriations received from the State for Housing grants and administrative fees	25,000	25,000
Housing grants	(25,080)	(26,355)
Net cash provided by (used in) operating activities	**917**	**(1,789)**
Cash flows from investing activities		
Proceeds from sale or maturities of investments	46,015	42,733
Purchase of investments	(48,751)	(42,187)
Investment income	1,299	1,477
Net cash (used in) provided by investing activities	**(1,437)**	**2,023**
Net (decrease) increase in cash	(520)	234
Cash at beginning of fiscal year	1,280	1,046
Cash at end of fiscal year	**$ 760**	**$ 1,280**
Reconciliation of operating income to net cash used in operating activities		
Operating loss	$ (667)	$ (1,770)
Amortization of investment discounts and premiums	808	714
Investment income	(1,225)	(1,383)
Unrealized loss on investments	175	500
Adjustments to reconcile change in net assets from operating activity to net cash used in operating activities:		
Changes in Assets and Liabilities:		
Payable to the New York State Housing Finance Agency	978	356
Housing grants payable	842	(206)
Accrued expenses	6	—
Net cash provided by (used in) operating activities	**$ 917**	**$ (1,789)**

See notes to financial statements.

1. THE CORPORATION

The New York State Affordable Housing Corporation (the "Corporation") was established under the provisions of the New York State (the "State") Private Housing Finance Law, as amended in 1985, and began operations on April 1, 1985. It is a public benefit Corporation of the State of New York and a subsidiary of the New York State Housing Finance Agency (the "Agency"). The Corporation does not have financial accountability to the Agency under the criteria set forth in Governmental Accounting Standards Board ("GASB") Statement No. 14, ("GASB No. 14") *The Financial Reporting Entity* and GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units.* Accordingly, it is not a component unit of the Agency and, therefore, has been excluded from the Agency's financial statements. In accordance with the criteria set forth in GASB Statement No. 14, the Corporation is included in the State's financial statements as a component unit for reporting purposes.

The purpose of the Corporation is to promote homeownership by providing financial assistance, leveraged by other public and private investments, for the acquisition, construction, rehabilitation and improvement of owner-occupied housing. Funding is provided through appropriations received from the State. From inception through March 31, 2014, the State has appropriated in excess of $807 million for the Corporation's purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Corporation utilizes the accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred.

Investments - Investments are recorded at their fair value, which are based on quoted market prices or matrix pricing for securities that are not traded actively. For the purpose of financial statement presentation, the Corporation does not consider any of its investments to be cash equivalents.

Investment Income - Investment income is accrued and recognized as revenue when earned.

Investment Premiums and Discounts - Premiums and discounts on investments held are amortized over the investment's remaining life using the straight line method.

Revenue and Expense Classification – Operating revenue consists primarily of appropriations received from the State for housing grants, repayment funds received from homeowners, recaptured funds returned by grantees, the administrative fee received from the State and investment income. Revenue is accrued and recognized when earned. Operating expenses include housing grants disbursed, administrative salaries and other administrative expenses.

Reclassifications – Certain reclassifications have been made to the prior year in order to conform to the current year presentation.

Recent Accounting Pronouncements –

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2014. The Corporation is in the process of assessing the impact of GASB 68 on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB 69"). The objective of this Statement is to improve the accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2013. The Corporation does not anticipate that the implementation of this standard will have an impact on its financial statements.

In February 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"). The objective of this Statement is to improve the comparability of financial statements among governments by requiring consistent reporting by those governments that extend and/or receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2013. The Corporation does not anticipate that the implementation of this standard will have an impact on its financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB 68,* ("GASB 71"). The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2014. The Corporation is in the process of assessing the impact of GASB 71 on its financial statements.

3. SERVICE AGREEMENT

The Corporation has an agreement with the Agency whereby the Agency provides managerial, administrative and financial services to the Corporation. Pursuant to this agreement, the Corporation was charged approximately $1,971,000 and $1,921,000 for various expenses, including salaries, in fiscal years 2014 and 2013, respectively.

4. DEPOSITS AND INVESTMENTS

Investment Policy - The Corporation has a formal investment policy, which provides for the investment of all of the Corporation's funds. The policy allows for investments in obligations of the United States of America, obligations the principal and interest of which are guaranteed by the United States of America, obligations of the State of New York, obligations of which the principal and interest are guaranteed by the State of New York and Repurchase Agreements with Primary Dealers meeting specific capitalization and rating agency criteria. As of and for the year ended March 31, 2014, all of the Corporation's funds are invested in accordance with the investment guidelines approved annually by the Corporation's board, which are in compliance with the New York State Comptroller's Investment Guidelines.

At March 31, 2014 and 2013, the value of investments, including accrued interest, which were held by depositories in the Corporation's name, was approximately $38,408,000 and $36,729,000, respectively, and the collateralized deposits amounted to $760,000 and $1,280,000, respectively. All of the Corporation's investments are insured or registered, and held by depositories in the Corporation's name.

As of March 31, 2014, the Corporation held the following investments with maturities as follows:

Amounts below are at fair value excluding accrued interest:

	March 31, 2014		
	Investment Maturities (In Years)		
	Fair Value	Less than 1	1 to 5
		(In thousands)	
Investment Type			
U. S. Treasury Bills	$ 8,738	$ 8,738	$ —
Municipal Bonds issued by Agencies of the State of New York:			
Metropolitan Transportation Authority	210	210	—
Dormitory Authority of the State of New York	22,286	6,736	15,550
New York State Thruway Authority	7,000	1,913	5,087
Total	**$ 38,234**	**$ 17,597**	**$ 20,637**

Credit Risk - Investment guidelines and policies are designed to protect principal by limiting credit risk. Therefore, the Corporation has a formal investment policy which governs the investment of all Corporation monies.

As of March 31, 2014, Municipal Bonds issued by agencies of the State of New York represented approximately 77.1% of the Corporation's total investments. U.S. Treasury Bills represent the remaining 22.9% of the Corporation's investments.

The following issuers represent 5% or more of total investments as of March 31, 2014: 58.3% with the Dormitory Authority of the State of New York ("DASNY") and 18.3% with the New York State Thruway Authority ("Thruway Authority").

In accordance with the Corporation's investment policy, at the time of purchase, each municipal bond is required to be rated a minimum of AA by Moody's, Standard & Poor's or Fitch.

As of March 31, 2014, all of the municipal bonds held by the Corporation issued by the Thruway Authority, together with approximately 91% of the municipal bonds issued by DASNY have maintained the minimum rating of AA. However, with regard to less than 8% of the Corporation's investments with DASNY and the Metropolitan Transportation Authority, municipal bonds which were rated AA at the time of purchase were subsequently downgraded by Standard and Poor's or Fitch to AA-.

Interest Rate Risk – Is the risk that occurs with changes in interest rates. Such changes may or may not adversely affect the fair value of investment holdings. The Corporation invests funds as closely as practical to the anticipated usage dates, thereby minimizing the effect of interest rate risk.

5. RETIREMENT BENEFITS

State Employees' Retirement System – The Corporation participates in the New York State and Local Employees' Retirement System (the "System") which is a cost sharing multiple employer public employee retirement system offering a wide range of plans and benefits which are related to years of service and final average salary. The system also provides for death and disability benefits and for optional methods of benefit payments. Obligations of participating employers and employees to contribute, and benefits payable to employees, are governed by the System and social security laws. The laws provide that all participating employers in the System are jointly and severally liable for any actuarial unfunded amounts.

The Corporation is not billed directly by the System for employee contributions. The service agreement with the Agency provides for an allocation of these costs to the Corporation, representing its share of the required contributions.

Based upon the actuarially determined contribution requirements, the Corporation contributed 100% of their required portion. The Corporation contributed approximately $200,000, $213,000 and $245,000 in 2014, 2013 and 2012, respectively. The Corporation's employees were required to contribute approximately 1.5% of the current year's covered payroll (totaling approximately $60,000, $43,000 and $54,000 in 2014, 2013 and 2012, respectively).

Generally, all employees, except certain part-time and temporary employees, participate in the System. The System is contributory for the employees who joined after July 1976. Employee contributions are deducted from employees' compensation for remittance to the System.

The covered payrolls were approximately $3.9 million and $3.6 million in fiscal years 2014 and 2013, respectively.

Changes in benefit provisions and actuarial assumptions did not have a material effect on contributions during fiscal years 2014 and 2013.

Since the Corporation is a participating employer in the System, the Corporation does not issue a separate stand-alone financial report regarding retirement benefits. The financial report of the System can be obtained from:

Office of the State Comptroller
New York State and Local Retirement System
110 State Street
Albany, NY 12244

Deferred Compensation – Some employees of the Corporation have elected to participate in the State's deferred compensation plan in accordance with Internal Revenue Code Section 457. Corporation employees contributed approximately $183,000 and $170,000 during fiscal years 2014 and 2013, respectively.

Other Postemployment Benefits - In June, 2004 GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("OPEB").* The Corporation's health care costs are billed directly to the Agency. As a result, the Agency's actuarial valuation includes the Corporation's obligation for these benefits. The Agency's annual OPEB cost and Net OPEB obligation includes the portion relating to the Corporation. The service agreement between the Agency and the Corporation provides for an allocation of these costs to the Corporation, representing its share of the billed amount.

6. COMMITMENTS

As of March 31, 2014 and 2013, the Corporation was committed to fund approximately $39.6 million and $54.4 million respectively, under approved grant agreements. The grants will be funded over the next several years through appropriations approved by the State but not yet drawn down by the Corporation.

7. CONTINGENCIES

In the ordinary course of business, the Corporation is party to various administrative and legal proceedings. While the ultimate outcome of these matters cannot presently be determined, it is the Corporation's opinion that the resolution of these matters will not have a material effect on its financial condition.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and Members of the Board
New York State Affordable Housing Corporation

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New York State Affordable Housing Corporation (the "Corporation"), a component unit of the State of New York,, which comprise the statements of net position as of March 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Ernst + Young LLP

June 12, 2014

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