New York State
Affordable Housing Corporation

AHC

Financial Statements

Fiscal Year

2012

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

Financial Statements

Fiscal Year Ended March 31, 2012

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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, 2012 and 2011, 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. 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' unqualified report attests that the financial statements are presented, in all material aspects, in accordance with accounting principles generally accepted in the United States of America.

Darryl C. Towns
President/Chief Executive Officer

Joanne Hounsell
Senior Vice President/
Interim Chief Financial Officer

June 12, 2012

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Report of Independent Auditors

The Members
New York State Affordable Housing Corporation

We have audited the accompanying statements of net position of the New York State Affordable Housing Corporation (the "Corporation"), a component unit of the State of New York as of March 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions 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. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included 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, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of March 31, 2012 and 2011, and the respective changes in financial position and, cash flows thereof for the years then ended in conformity with US generally accepted accounting principles.

As discussed in Note 2, the Corporation adopted Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of April 1, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2012 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* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States 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, 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, 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 audits 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.

Ernst & Young LLP

June 12, 2012

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") activities for the year ended March 31, 2012 ("fiscal 2012") with selected comparative information for the years ended March 31, 2011 ("fiscal 2011") and March 31, 2010 ("fiscal 2010"). Please read this analysis in conjunction with the financial statements and the notes to 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.

Management's Discussion and Analysis:

- This section of the Corporation's financial statements, the Management's Discussion and Analysis ("MD&A"), presents an overview of the Corporation's financial performance during fiscal 2012 compared with selected comparative information for fiscal 2011. It provides a discussion of financial highlights and an assessment of how the Corporation's position has changed from the past year. It identifies the factors that, in management's view, significantly affected the Corporation's overall financial position. It may contain 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 described below.

The Financial Statements:

- The "Statements of Net Position" provide information about the liquidity and solvency of the Corporation by indicating the nature and the amounts of investments in resources (assets), the obligations to Corporation creditors (liabilities) and net position.
- The "Statements of Revenues, Expenses, and Changes in Net Position" account for all 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 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 of contractual obligations, future commitments and contingencies of the Corporation.
- Information 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 2012 and Fiscal 2011

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 2012, fiscal 2011 and fiscal 2010 was $25 million.

Grant Awards

Using funds appropriated by the Governor and the State Legislature in the State Budget, the Corporation approved awards totaling $29,138,188 to create or renovate 1,697 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 2012 awards were made in 44 counties across the State.

Grants are typically used to subsidize the purchase price of a new home 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 $29 million in fiscal 2012 as compared to approximately $32.1 million in fiscal 2011, a decrease of $3.1 million, or 9.7%. The decrease in fiscal 2012 was primarily the result of a reduction in activity in Buffalo, Long Island and Westchester County, partially offset by an increase in awards to projects in New York City, Syracuse, Binghamton and other locations.

	Fiscal Year 2012		**Fiscal Year 2011**	
Region	Units	Awards	Units	Awards
Binghamton	297	$ 3,398,279	174	$ 2,594,280
Syracuse	287	3,343,571	71	1,638,571
New York City	267	6,052,500	208	4,000,000
Rochester	195	3,640,150	315	4,107,149
Mohawk Valley	188	2,832,400	102	2,037,300
Long Island	133	3,540,000	378	6,375,000
Buffalo	121	1,530,288	260	3,296,100
Capital	99	1,447,800	212	1,761,000
Downstate	66	2,610,000	128	5,120,000
Mid-Hudson	44	743,200	49	1,240,000
Total	1,697	$ 29,038,188	1,897	$ 32,169,400

Grant Expense

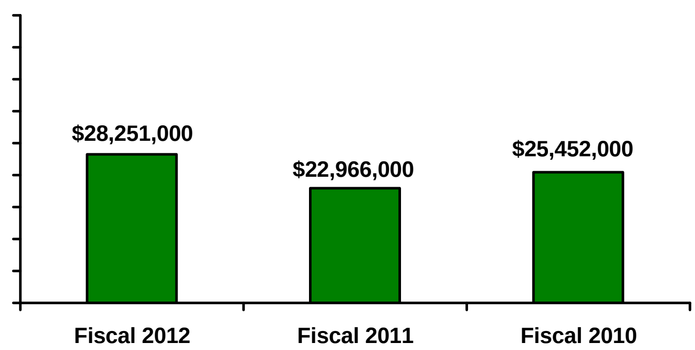
A two year comparison of housing grants expensed is shown in the Condensed Statements of Revenue, Expenses and Changes in Net Position.

Funds are not disbursed as housing grants until required by grantees. Housing grants overlap fiscal years, resulting in timing differences between grants awarded and expensed.

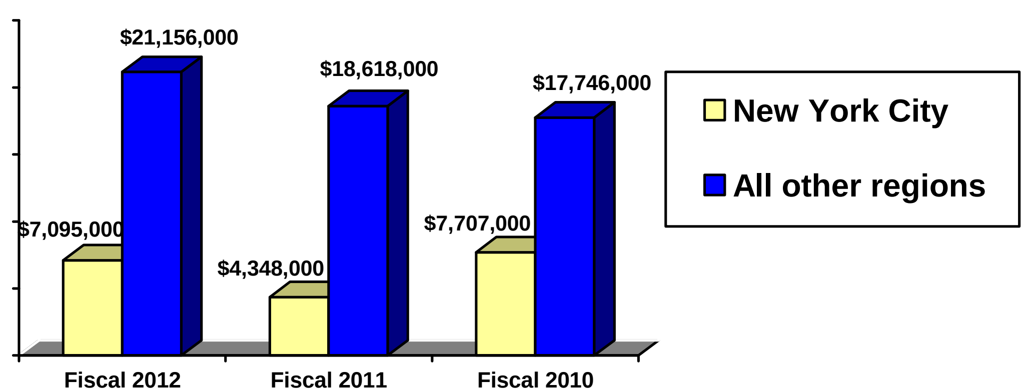
Housing grants increased from $23 million in fiscal 2011 to $28.3 million in fiscal 2012, an increase of $5.3 million, or 23%, as compared with a decrease from $25.5 million in fiscal 2010 to $23 million in fiscal 2011, a decrease of $2.5 million, or 9.8%.

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	
	2012	2011	2010	2012-11	2011-10
Current Assets	$ 19,908	$ 16,721	$ 10,890	19%	54%
Non-Current Assets - Investments	19,720	25,135	26,827	(22%)	(6%)
Total Assets	39,628	41,856	37,717	(5%)	11%
Total Liabilities - Current	2,904	1,971	11	47%	17,818%
Total Restricted Net Position	$ 36,724	$ 39,885	$ 37,706	(8%)	6%

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, 2012 and 2011, short term investments were held in the amounts of $18.5 million and $15.9 million (excluding accrued interest receivable), respectively, representing an increase of $2.6 million, or 16.4%, as compared with an increase from $9.6 million as of March 31, 2010 to $15.9 million as of March 31, 2011, an increase of $6.3 million, or 65.6%.

Non-Current Assets

Accumulated funds returned by grantees and home owners 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 decreased from $25.1 million as of March 31, 2011 to $19.7 million as of March 31, 2012, a decrease of $5.4 million, or 21.5%, as compared with a decrease from $26.8 million as of March 31, 2010 to $25.1 million as of March 31, 2011, a decrease of $1.7 million, or 6.3%.

Investments

The Corporation's funds are invested in accordance with the investment guidelines approved annually by the Corporation's Board Members, which are also 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 96% of total assets.

Liabilities

Payable to the New York State Housing Finance Agency

The amount of the payable to the Agency increased from $1.2 million in fiscal 2011 to $1.8 million in fiscal 2012, an increase of $600 thousand, or 50%. Payables remained unchanged from 2010 to 2011. Amounts are paid pursuant to the service agreement with the Agency as funds become available.

Housing Grants Payable

Housing grants payable increased from $745 thousand in 2011 to $1.3 million in 2012, an increase of approximately $500 thousand, or 67.1%. This amount represents payments due to grantees at the end of the 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	
	2012	2011	2010	2012-11	2011-10
Operating Revenues:					
Appropriations Received for Housing Grants	$ 24,725	$ 24,887	$ 22,476	(1%)	11%
Repayment/Recapture Funds Received from Homeowners	1,530	1,175	1,718	30%	(32%)
Administrative Fees	275	275	275	-	-
Investment Income and Unrealized Loss	602	889	1,522	(32%)	(42%)
Operating Expenses:					
Housing Grants	(28,251)	(22,966)	(25,453)	(23%)	10%
Operating Expenses - Other	(2,042)	(2,081)	(2,072)	2%	-
(Decrease) Increase in Restricted Net Position	$ (3,161)	$ 2,179	$ (1,534)	(245%)	242%

"—" indicates a percentage of less than 1%

Operating Revenues

Appropriations Received for Housing Grants

Appropriations received for housing grants decreased from $24.9 million in fiscal 2011 to $24.7 million in fiscal 2012, a decrease of $200 thousand, or 0.8%, as compared with an increase from $22.5 million in fiscal 2010 to $24.9 million in fiscal 2011, an increase of $2.4 million, or 10.7%. Appropriations received for housing grants represent funds budgeted for by the State and received by the Corporation to accomplish the goals of the Corporation. Funds received by the Corporation vary from year to year as funds are drawn down from the State.

Repayment/Recapture Funds Received from Homeowners

If a homeowner does not occupy a home as his/her principal place of residence for the period specified under the terms and conditions of the Corporation's Note and Mortgage, grant funds are recaptured from such homeowners by the Corporation. The recapture amount due is based on a formula established by the Corporation.

Repayment/Recapture Funds Received from Homeowners increased from $1.2 million in 2011 to $1.5 million in 2012, an increase of $300 thousand, or 25%, as compared with a decrease from $1.7 million in fiscal 2010 to $1.2 million in 2011, a decrease of $500 thousand, or 29.4%. The variance is a result of the payments which homeowners were required to remit during each fiscal year.

Operating Expenses

Housing Grants

Housing grants increased from $23 million in fiscal 2011 to $28.3 million in fiscal 2012, an increase of $5.3 million, or 23%, as compared with a decrease from $25.5 million in fiscal 2010 to $23 million in fiscal 2011, a decrease of $2.5 million, or 9.8%. Housing grants expense fluctuated from year to year as a result of the timing of funds required by Grantees.

Operating Expenses - Other

Administrative salaries allocated to the Corporation remained relatively unchanged at approximately $2 million in fiscal 2012, fiscal 2011 and fiscal 2010 and represent 97.8% of Operating Expenses - Other.

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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, 2012	March 31, 2011
	(In thousands)	
Assets		
Current assets		
Cash	$ 1,046	$ 401
Investments	18,520	15,931
Accrued interest receivable	342	389
Total current assets	19,908	16,721
Non-current assets		
Investments	19,720	25,135
Total assets	**39,628**	**41,856**
Liabilities		
Current liabilities		
Accrued expenses	21	16
Payable to the New York State Housing Finance Agency	1,845	1,210
Housing Grants Payable	1,038	745
Total liabilities	**2,904**	**1,971**
Net position		
Restricted for program grants	$ 36,724	$ 39,885

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, 2012	Fiscal Year Ended March 31, 2011
	(In thousands)	
Operating revenues		
Appropriations received for housing grants	$ 24,725	$ 24,887
Repayment and recaptured funds received from homeowners	1,530	1,175
Administrative fee	275	275
Investment income	898	1,063
Unrealized loss on the fair value of investments	(296)	(174)
Total operating revenues	**27,132**	**27,226**
Operating expenses		
Housing grants	28,251	22,966
Administrative salaries	1,997	2,037
Other administrative expenses	45	44
Total operating expenses	**30,293**	**25,047**
Change in net position	**(3,161)**	**2,179**
Total net position - beginning of fiscal year	39,885	37,706
Total net position - end of fiscal year	**$ 36,724**	**$ 39,885**

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, 2012	2011
	(In thousands)	
Cash flows from operating activities		
Administrative fee	$ 275	$ 275
Repayment and recaptured funds received from homeowners	1,530	1,175
Administrative expenses	(1,402)	(803)
Appropriations received for housing grants	24,725	24,887
Housing grants	(27,958)	(22,221)
Investment income	1,528	1,525
Net cash (used in) provided by operating activities	**(1,302)**	**4,838**
Cash flows from investing activities		
Proceeds from sale or maturities of investments	29,080	35,919
Purchase of investments	(27,133)	(41,190)
Net cash provided by (used in) investing activities	**1,947**	**(5,271)**
Net increase (decrease) in cash	645	(433)
Cash at beginning of fiscal year	401	834
Cash at end of fiscal year	**$ 1,046**	**$ 401**
Reconciliation of operating income to net cash used in operating activities		
Operating (loss) income	$ (3,161)	$ 2,179
Adjustments to reconcile increase in net assets from operating activity to net cash used in operating activities:		
Unrealized loss on the fair value of investments	296	174
Amortization of investment premium	583	397
Interest receivables	47	65
Payables to State Housing Agency	635	1,273
Increase in housing grants payable	293	745
Accrued Expenses	5	5
Net cash (used in) provided by operating activities	**$ (1,302)**	**$ 4,838**

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 both 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 home ownership 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, 2012, the State has appropriated $757 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 in accordance with GASB Statement No. 31*, Accounting and Financial Reporting for Certain Investments and External Investment Pools*. 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.

Recently Implemented Accounting Pronouncements –

In 2011, the Corporation adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (“FASB”) and American Institute of*

Certified Public Accountants ("AICPA") Pronouncements ("GASB No. 62"). This Standard improves financial reporting by incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB No. 62 superseded Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The adoption of the new standard did not have any impact on the presentation of the Corporation's financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of net position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011; however the Corporation elected to early-adopt this Statement in the 2012 fiscal year.

The Corporation did not have any deferred inflows or outflows of resources at March 31, 2012 and 2011. The adoption of this pronouncement resulted in a retroactive change in the presentation of the Balance Sheets to what is now referred to as the Statements of Net Position and the term "net assets" is changed to "net position" throughout the financial statements.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments; Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as it applies to termination provisions when a counterparty of an interest rate or commodity swap is replaced. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The Corporation has not entered into any interest rate or commodity swaps and does not anticipate the implementation of this standard will have an impact on its financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB No. 65"). The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Corporation has not completed the process of evaluating the impact of GASB No. 65 on its financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012.* The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements – Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB No. 62*.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Corporation has not completed the process of evaluating the impact of GASB No. 66 on its financial statements.

Revenue and Expense Classification – Operating revenue consists primarily of appropriations received from the State for housing grants, repayment and recaptured funds received from homeowners, the administrative fee received from the State, investment income and the unrealized loss on the fair market value of investments. Revenue is accrued and recognized as revenue 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.

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 $2,041,000 and $2,081,000 for various expenses, including salaries, in fiscal years 2012 and 2011, respectively.

4. CASH AND INVESTMENTS

Investment Policy - The Corporation has a formal investment policy, which provides for the investment of all Corporation 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, 2012, all Corporation 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, 2012 and 2011, the value of investments, including accrued interest, which were held by depositories in the Corporation's name, was approximately $38,582,000 and $41,455,000, respectively, and the collateralized cash amounted to $1,046,000 and $401,000, respectively. All of the Corporation's investments are insured or registered, and held by depositories in the Corporation's name.

Investments are recorded at their fair value, which are based on quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial*

Reporting for Certain Investments and for External Investment Pools. Investment income includes changes in the fair value of investments and is reported as operating revenue.

As of March 31, 2012, the Corporation held the following investments with maturities as follows:

Amounts below are at fair value excluding accrued interest:

	March 31, 2012 Investment Maturities (In Years)		
	Fair Value	**Less than 1**	**1 to 5**
		(In thousands)	
Investment Type			
U. S. Treasury Bills	$ 6,594	$ 6,594	$ —
Municipal Bonds issued by Agencies of the State of New York:			
Metropolitan Transit Authority	3,096	993	2,103
Dormitory Authority of the State of New York	23,011	7,889	15,122
New York State Thruway Authority	5,539	2,430	3,109
Total	**$ 38,240**	**$ 17,906**	**$ 20,334**

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, 2012, Municipal Bonds issued by agencies of the State of New York represented 82.8% of the Corporation's total investments. U.S. Treasury Bills represent the remaining 17.2% of the Corporation's investments.

The following issuers represent 5% or more of total investments as of March 31, 2012: 8.1% with the Metropolitan Transit Authority ("MTA"), 60.2% with the Dormitory Authority of the State of New York ("DASNY") and 14.5% 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, 2012, all of the municipal bonds held by the Corporation issued by the MTA and the Thruway Authority, together with approximately 92.4% of the municipal bonds issued by DASNY have maintained the minimum rating of AA. However, with regard to less than 7.6% of the Corporation's investments with DASNY, municipal bonds which were rated AA at the time of purchase were subsequently downgraded by Standard and Poor's to BBB.

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, and provide for death and disability benefits and for optional methods of benefit payments. All benefits vest after five years of credited service. 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 $245,000, $158,000 and $96,000 in 2012, 2011 and 2010, respectively. Corporation employees were required to contribute approximately 1.3% of the current year's covered payroll (totaling approximately $54,000, $56,000 and $57,000 in 2012, 2011 and 2010, respectively).

Generally, all employees, except certain part-time and temporary employees, participate in the System. The System is contributory for the first ten years for employees who joined after July 1976 at the rate of 3% of their salary. Employees joining the System on or after January 1, 2010 are required to contribute 3% of their salary for all of their years of public service. Employee contributions are deducted from employees' compensation for remittance to the System.

The covered payrolls for the last two years were approximately $4.3 million in fiscal years 2012 and 2011.

Changes in benefit provisions and actuarial assumptions did not have a material effect on contributions during fiscal years 2012 and 2011.

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 $218,284 and $219,645 during fiscal years 2012 and 2011, 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. Also 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, 2012 and 2011, the Corporation is committed to fund approximately $59.7 million 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 on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Members
New York State Affordable Housing Corporation

We have audited the financial statements of the New York State Affordable Housing Corporation (a component unit of the State of New York) (the "Corporation"), as of and for the years ended March 31, 2012 and 2011, and have issued our report thereon dated June 12, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of management, the Members, others within the entity and the Office of the State Comptroller of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

June 12, 2012