

New York State
Affordable Housing Corporation

AHC

Financial Statements

Fiscal Year

2013

NEW YORK STATE AFFORDABLE HOUSING CORPORATION

(A Component Unit of the State of New York)

Financial Statements

Fiscal Year Ended March 31, 2013

Table of Contents	Page
Responsibility for Financial Reporting.....	1
Report of Independent Auditors	2
Management’s Discussion and Analysis.....	4
Financial Statements:	
Statements of Net Position	12
Statements of Revenues, Expenses and Change in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15
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	21

RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the New York State Affordable Housing Corporation (the "Corporation"), for the fiscal years ended March 31, 2013 and 2012, 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 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 19, 2013

Report of Independent Auditors

The Members and Management of the
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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements 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.

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

Opinion

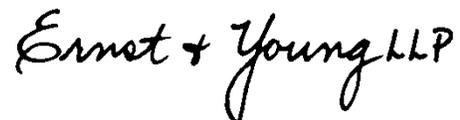
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of March 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted 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 19, 2013 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.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

June 19, 2013

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”) activities for the year ended March 31, 2013 (“fiscal 2013”) with selected comparative information for the years ended March 31, 2012 (“fiscal 2012”) and March 31, 2011 (“fiscal 2011”). This analysis must be read 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 2013 compared with selected comparative information for fiscal 2012. 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 2013 and Fiscal 2012

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 2013, fiscal 2012 and fiscal 2011 was \$25 million.

Grant Awards

Using funds appropriated by the Governor and the State Legislature in the State Budget, the Corporation approved awards totaling \$26,040,131 to create or renovate 1,500 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 2013 awards were made in 48 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 \$26.0 million in fiscal 2013 as compared to approximately \$28.4 million in fiscal 2012, a decrease of \$2.4 million, or 8.5%. The decrease in fiscal 2013 was primarily the result of a reduction of general activity in the Capital, Central New York and Mohawk Valley regions, as well as a reduction in new construction and acquisition/rehabilitation activity in the Finger Lakes and Long Island regions. This was partially offset by an increase in awards to projects in New York City, Western New York and Mid-Hudson regions.

<u>Region</u>	<u>Fiscal Year 2013</u>		<u>Fiscal Year 2012</u>	
	<u>Units</u>	<u>Awards</u>	<u>Units</u>	<u>Awards</u>
New York City	346	\$ 8,460,000	267	\$ 6,052,500
Finger Lakes	197	1,956,352	183	3,590,150
Western New York	184	2,707,685	152	1,830,288
Central New York	156	2,301,487	287	3,346,571
Long Island	156	2,380,000	133	3,540,000
Southern Tier	154	2,123,603	241	2,784,566
North Country	109	1,779,004	98	1,703,600
Mid-Hudson	95	3,175,000	76	2,581,200
Capital Region	54	790,000	156	2,391,513
Mohawk Valley	49	367,000	42	568,000
Total	1,500	<u>\$ 26,040,131</u>	1,635	<u>\$ 28,388,388</u>

Grant Expense

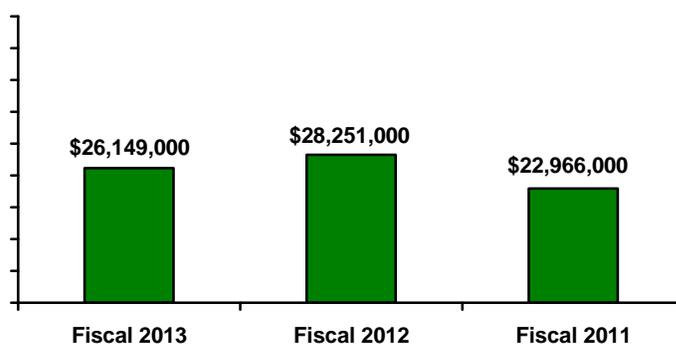
A three year comparison of housing grant expenses is shown in the Condensed Statements of Revenues, Expenses and Changes in Net Position.

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.

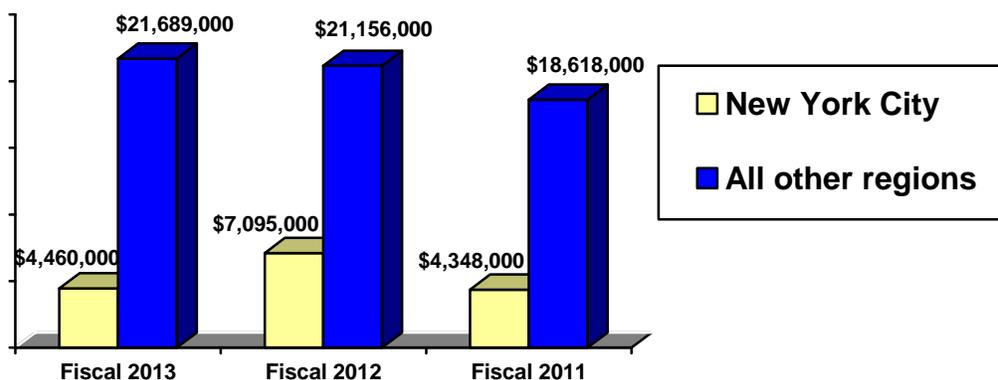
Grant expenses fluctuate from year to year as a result of the timing of the release of awarded funds to grantees. Grant expense decreased from \$28.3 million in fiscal 2012 to \$26.1 million in fiscal 2013, a decrease of \$2.2 million, or 7.8%, as compared with \$23 million in fiscal 2011 to \$28.3 million in fiscal 2012, an increase of \$5.3 million, or 23%.

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	
	2013	2012	2011	2013-12	2012-11
Current Assets	\$ 22,222	\$ 19,908	\$ 16,721	12%	19%
Non-Current Assets - Investments	<u>15,787</u>	<u>19,720</u>	<u>25,135</u>	(20%)	(22%)
Total Assets	<u>38,009</u>	<u>39,628</u>	<u>41,856</u>	(4%)	(5%)
Total Liabilities - Current	<u>3,055</u>	<u>2,904</u>	<u>1,971</u>	5%	47%
Total Restricted Net Position	<u>\$ 34,954</u>	<u>\$ 36,724</u>	<u>\$ 39,885</u>	(5%)	(8%)

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, 2013 and 2012, short term investments were held in the amounts of \$20.7 million and \$18.5 million (excluding accrued interest receivable), respectively, representing an increase of \$2.2 million, or 11.9%, as compared with an increase from \$15.9 million as of March 31, 2011 to \$18.5 million as of March 31, 2012, an increase of \$2.6 million, or 16.4%.

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 \$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%, as compared with a decrease 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%.

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 payable due to the Agency increased from \$1.8 million in fiscal 2012 to \$2.2 million in fiscal 2013, an increase of \$400 thousand, or 22.2%, as compared with an increase from \$1.2 million in fiscal 2011 to \$1.8 million in fiscal 2012, an increase of \$600 thousand, or 50%. Amounts are paid pursuant to the service agreement with the Agency from funds made available through administrative fees and investment income as funds become available. The payable has been increasing primarily as a result of declining investment income which is a result of declining rates on investments.

Housing Grants Payable

Housing grants payable decreased from \$1.0 million in 2012 to \$832 thousand in 2013, a decrease of approximately \$168 thousand, or 16.8%. This amount represents approved payments due to grantees at the end of the fiscal year 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	
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013-12</u>	<u>2012-11</u>
Operating Revenues:					
Appropriations Received from the State for:					
Housing Grants	\$ 24,725	\$ 24,725	\$ 24,887	—	(1%)
Administrative fee	275	275	275	—	—
Repayment Funds Received from Homeowners	961	1,257	974	(24%)	29%
Recaptured Funds Returned by Grantees	170	273	201	(38%)	36%
Investment Income and Unrealized Loss on the Fair value of investments	169	602	889	(72%)	(32%)
Operating Expenses:					
Housing Grants	(26,149)	(28,251)	(22,966)	7%	(23%)
Salaries and Other Operating Expenses	(1,921)	(2,042)	(2,081)	6%	2%
(Decrease) Increase in Restricted Net Position	<u>\$ (1,770)</u>	<u>\$ (3,161)</u>	<u>\$ 2,179</u>	44%	(245%)

"—" 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 to fiscal 2013. This compares with a decrease from \$24.9 million in fiscal 2011 to \$24.7 million in fiscal 2012, a decrease of \$200 thousand, or 0.8%. 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 which declines during the term of Note and Mortgage. Once the homeowner occupies the home for the required time period, a repayment is no longer required.

Repayment funds received from homeowners declined from \$1.26 million in fiscal 2012 to \$961 thousand in fiscal 2013, a decrease of \$299 thousand, or 23.5%, as compared with an increase from \$974 thousand in fiscal 2011 to \$1.26 million in fiscal 2012, an increase of \$286 thousand, or 29.1%. The variances are a result of annual increases or decreases in the number of homeowners who were required to submit repayments and the amounts required to be repaid 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 declined from \$273 thousand in fiscal 2012 to \$170 thousand in fiscal 2013, a decreased of \$103 thousand, or 37.7%, as compared with an increase from \$201 thousand in fiscal 2011 to \$273 thousand in fiscal 2012, an increase of \$72 thousand, or 35.8%. The variance is a result of the change in funds recaptured from grantees in each fiscal year.

Operating Expenses

Salaries and Other 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. Administrative salaries remained largely unchanged at approximately \$2 million from fiscal 2011 to fiscal 2012 and represented 97.8% 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,	
	<u>2013</u>	<u>2012</u>
	(In thousands)	
Assets		
Current assets		
Cash	\$ 1,280	\$ 1,046
Investments	20,694	18,520
Accrued interest receivable	248	342
Total current assets	<u>22,222</u>	<u>19,908</u>
Non-current assets		
Investments	<u>15,787</u>	<u>19,720</u>
Total assets	<u>38,009</u>	<u>39,628</u>
Liabilities		
Current liabilities		
Accrued expenses	21	21
Payable to the New York State Housing Finance Agency	2,202	1,845
Housing Grants Payable	<u>832</u>	<u>1,038</u>
Total liabilities	<u>3,055</u>	<u>2,904</u>
Net position		
Restricted for program grants	<u>\$ 34,954</u>	<u>\$ 36,724</u>

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,	
	<u>2013</u>	<u>2012</u>
	(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	961	1,257
Recaptured funds returned by grantees	170	273
Investment income	669	898
	<u>26,800</u>	<u>27,428</u>
Total operating revenues		
Operating expenses		
Housing grants	26,149	28,251
Administrative salaries	1,875	1,997
Unrealized loss on the fair value of investments	500	296
Other administrative expenses	46	45
	<u>28,570</u>	<u>30,589</u>
Total operating expenses		
Change in net position	(1,770)	(3,161)
Total net position - beginning of fiscal year	<u>36,724</u>	<u>39,885</u>
Total net position - end of fiscal year	<u>\$ 34,954</u>	<u>\$ 36,724</u>

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,	
	<u>2013</u>	<u>2012</u>
	(In thousands)	
Cash flows from operating activities		
Repayment funds received from homeowners	\$ 961	\$ 1,257
Recaptured funds returned by grantees	170	273
Administrative expenses	(1,565)	(1,402)
Appropriations received from the State for Housing grants and administrative fees	25,000	25,000
Housing grants	<u>(26,355)</u>	<u>(27,958)</u>
Net cash used in operating activities	<u>(1,789)</u>	<u>(2,830)</u>
Cash flows from investing activities		
Proceeds from sale or maturities of investments	42,733	29,080
Purchase of investments	(42,187)	(27,133)
Investment income	<u>1,477</u>	<u>1,528</u>
Net cash provided by investing activities	<u>2,023</u>	<u>3,475</u>
Net increase in cash	234	645
Cash at beginning of fiscal year	<u>1,046</u>	<u>401</u>
Cash at end of fiscal year	<u>\$ 1,280</u>	<u>\$ 1,046</u>
Reconciliation of operating income to net cash used in operating activities		
Operating loss	\$ (1,770)	\$ (3,161)
Adjustments to reconcile increase in net assets from operating activity to net cash used in operating activities:		
Net change used in non-operating activities	(264)	(649)
Changes in Assets and Liabilities:		
Accrued interest receivables	94	47
Payable to the New York State Housing Finance Agency	357	635
Increase in housing grants payable	(206)	293
Accrued Expenses	<u>—</u>	<u>5</u>
Net cash used in operating activities	<u>\$ (1,789)</u>	<u>\$ (2,830)</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2013

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 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, 2013, the State has appropriated \$782 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.

Revenue and Expense Classification – Operating revenue consists primarily of appropriations received from the State for housing grants, repayment funds received from homeowners and recaptured funds returned by grantees, 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.

Recent Accounting Pronouncements –

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 is in the process of assessing the impact of GASB No. 65 on its financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB No. 68”). The objective of this Statement is to improve the information provided in government financial reports about pension-related financial support provided by certain non-employer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Corporation is in the process of assessing the impact of GASB No. 68 on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB No. 69”). The objective of this Statement is to establish accounting and financial reporting standards related to government combination and disposal of government operations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The Corporation is in the process of assessing the impact of GASB No. 69 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 \$1,921,000 and \$2,041,000 for various expenses, including salaries, in fiscal years 2013 and 2012, 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, 2013, 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, 2013 and 2012, the value of investments, including accrued interest, which were held by depositories in the Corporation's name, was approximately \$36,729,000 and \$38,582,000, respectively, and the collateralized cash amounted to \$1,280,000 and \$1,046,000, respectively. All of the Corporation's investments are insured or registered, and held by depositories in the Corporation's name.

As of March 31, 2013, the Corporation held the following investments with maturities as follows:

Amounts below are at fair value excluding accrued interest:

Investment Type	March 31, 2013		
	Investment Maturities (In Years)		
	Fair Value	Less than 1	1 to 5
	<i>(In thousands)</i>		
U. S. Treasury Bills	\$ 7,748	\$ 7,748	\$ —
Municipal Bonds issued by Agencies of the State of New York:			
Metropolitan Transit Authority	1,981	1,772	209
Dormitory Authority of the State of New York	22,514	9,195	13,319
New York State Thruway Authority	4,238	1,979	2,259
Total	\$ 36,481	\$ 20,694	\$ 15,787

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, 2013, Municipal Bonds issued by agencies of the State of New York represented 78.8% of the Corporation's total investments. U.S. Treasury Bills represent the remaining 21.2% of the Corporation's investments.

The following issuers represent 5% or more of total investments as of March 31, 2013: 5.4% with the Metropolitan Transit Authority ("MTA"), 61.7% with the Dormitory Authority of the State of New York ("DASNY") and 11.6% 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, 2013, all of the municipal bonds held by the Corporation issued by the MTA and 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 9% 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 \$213,000, \$245,000 and \$158,000 in 2013, 2012 and 2011, respectively. Corporation employees were required to contribute approximately 1.3% of the current year's covered payroll (totaling approximately \$43,000, \$54,000 and \$56,000 in 2013, 2012 and 2011, 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 \$3.6 million and \$4.3 million in fiscal years 2013 and 2012, respectively.

Changes in benefit provisions and actuarial assumptions did not have a material effect on contributions during fiscal years 2013 and 2012.

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 \$170,252 and \$218,284 during fiscal years 2013 and 2012, 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, 2013 and 2012, the Corporation is committed to fund approximately \$54.4 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 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*

The Members
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 (a component unit of the State of New York) (the “Corporation”), which comprise the statements of net position as of March 31, 2013 and 2012, 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 19, 2013.

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.

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 19, 2013