

**New York State Affordable
Housing Corporation**
(A Component Unit of the State of New York)

**Financial Statements for the
Year Ended March 31, 2011
Report of Independent Auditors**

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

Financial Statements

Fiscal Year Ended March 31, 2011

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RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the New York State Affordable Housing Corporation (the "Corporation") for the fiscal year ended March 31, 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 from which financial statements are prepared. 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.

The financial statements for the year ended March 31, 2010 were audited by other auditors. The 2010 financial statements have not been presented for comparative purposes in this report as restricted net assets were restated (see Note 3 to the audited financial statements).



Darryl C. Towns
President / Chief Executive Officer

June 14, 2011



Joanne Hounsell
Senior Vice President /
Interim Chief Financial Officer

Report of Independent Auditors

To the Board Members of the
New York State Affordable Housing Corporation

We have audited the accompanying balance sheet of the New York State Affordable Housing Corporation (the “Corporation”), a component unit of the State of New York, as of March 31, 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit 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 audit provides a reasonable basis for our opinion.

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

As discussed in note 3 to the accompanying financial statements, restricted net assets as of March 31, 2010 have been restated from the Corporation’s previously issued financial statements, which were audited by other auditors.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2011 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 audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

June 14, 2011

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, 2011 ("fiscal 2011") with selected comparative information for the year ended 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 2011 compared with selected comparative information for fiscal 2010. 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 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 described below.

The Financial Statements:

- The "Balance Sheet" provides 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 assets. Net assets represent the amount of total assets less liabilities.
- The "Statement of Revenues, Expenses, and Changes in Net Assets" accounts 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 assets is similar to net profit or loss for a business.

- The “Statement 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 2011 and Fiscal 2010

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 both 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 \$32,169,400 to create or renovate 1,897 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 2011 awards were made in 49 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 \$32.2 million in fiscal 2011 as compared to approximately \$40 million in fiscal 2010, a decrease of \$7.8 million, or 19.54%. The decrease in fiscal 2011 was primarily the result of a reduction in demand for new construction projects in NYC offset by an increase in awards to projects in other locations.

Region	Fiscal Year 2011		Fiscal Year 2010	
	Units	Awards	Units	Awards
Long Island	378	\$ 6,375,000	142	\$ 3,518,000
Downstate	128	5,120,000	5	200,000
Rochester	315	4,107,149	368	2,897,150
New York City	208	4,000,000	577	17,154,300
Buffalo	260	3,296,100	311	3,267,348
Binghamton	174	2,594,280	280	3,058,279
Mohawk Valley	102	2,037,300	177	2,174,880
Capital	212	1,761,000	81	1,120,000
Syracuse	71	1,638,571	332	4,685,571
Mid-Hudson	49	1,240,000	82	1,904,000
Total	1,897	<u>\$ 32,169,400</u>	2,355	<u>\$ 39,979,528</u>

Grant Disbursements

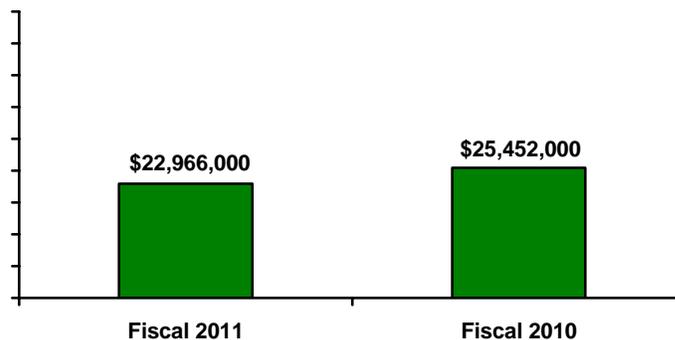
A two year comparison of housing grants disbursed is shown in the Condensed Statements of Revenue, Expenses and Changes in Net Assets.

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

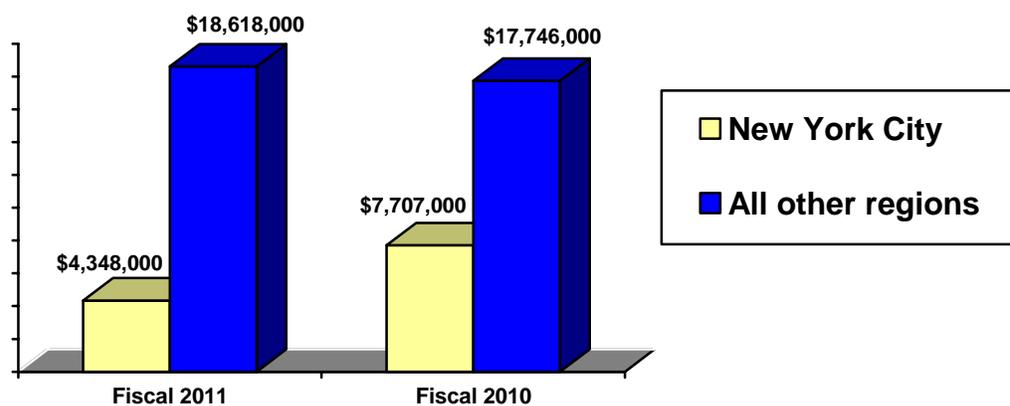
Housing grants disbursed totaled \$23 million in fiscal 2011 compared with \$25.5 million in fiscal 2010, a decrease of \$2.5 million, or 9.8%.

See the charts below for details of housing grant disbursements.

Total Housing Grant Disbursements



Housing Grants Disbursed - By Region



Condensed Balance Sheets (in thousands)

	<u>2011</u>	<u>2010</u> (Restated)
Current Assets	\$ 16,721	\$ 10,890
Non-Current Assets	<u>25,135</u>	<u>26,827</u>
Total Assets	41,856	37,717
Total Liabilities - Current	<u>1,971</u>	<u>11</u>
Total Restricted Net Assets	<u>\$ 39,885</u>	<u>\$ 37,706</u>

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. Short term investments were held in the amounts of \$15.9 million and \$9.6 million (excluding accrued interest receivable) as of March 31, 2011 and 2010 respectively, representing 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 totaled \$25.1 million as of March 31, 2011, as compared with \$26.8 million as of March 31, 2010, representing 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 market value and represent approximately 98% of total assets.

Liabilities

Payable to the New York State Housing Finance Agency

The amount of the payable to the Agency increased from \$0 in fiscal 2010 to \$1.2 million in fiscal 2011. Amounts are paid pursuant to the service agreement with the Agency as funds become available.

Housing Grants Payable

Housing grants payable increased from \$0 in 2010 to \$745 thousand in 2011. This amount represents payments due to grantees at the end of the fiscal year.

Condensed Statements of Revenues, Expenses and Changes in Net Assets (in thousands)

	<u>2011</u>	<u>2010</u> (Restated)
Operating Revenues:		
Appropriations Received for Housing Grants	\$ 24,887	\$ 22,476
Repayment/Recapture Funds Received from Homeowners	1,175	1,718
Administrative Fees	275	275
Operating Expenses:		
Housing Grants	(22,966)	(25,453)
Operating Expenses - Other	(2,081)	(2,072)
Non-Operating Revenues	889	1,522
Increase (Decrease) in Net Assets	<u>\$ 2,179</u>	<u>\$ (1,534)</u>

Operating Revenues

Appropriations Received for Housing Grants

Appropriations received for housing grants increased 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.

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 decreased from \$1.7 million in 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 decreased from \$25.5 million in fiscal 2010 to \$23 million in fiscal 2011, a decrease of \$2.5 million, or 9.8%. Housing grants disbursed fluctuate from year to year as a result of the timing of payments processed by the Corporation.

Operating Expenses - Other

Administrative salaries allocated to the Corporation remained largely unchanged at approximately \$2 million in fiscal 2011 and fiscal 2010 and represent 97.9% of Operating Expenses - Other.

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

BALANCE SHEET
MARCH 31, 2011
(in thousands)

Assets	<u>2011</u>
Current assets	
Cash (Note 5)	\$ 401
Investments (Note 5)	15,931
Accrued interest receivable	<u>389</u>
Total current assets	16,721
Non-current assets	
Investments (Note 5)	<u>25,135</u>
Total assets	<u>\$ 41,856</u>
Liabilities and net assets	
Current liabilities	
Accrued expenses	\$ 16
Payable to the New York State Housing Finance Agency	1,210
Housing Grants Payable	<u>745</u>
Total liabilities	1,971
Restricted net assets	<u>39,885</u>
Total liabilities and net assets	<u>\$ 41,856</u>

See notes to financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FISCAL YEAR ENDED MARCH 31, 2011
(in thousands)

	<u>2011</u>
Operating revenues	
Appropriations received for housing grants	\$ 24,887
Repayment and recaptured funds received from homeowners	1,175
Administrative fee	<u>275</u>
Total operating revenues	<u>26,337</u>
Operating expenses	
Housing grants	22,966
Administrative salaries	2,037
Other administrative expenses	<u>44</u>
Total operating expenses	<u>25,047</u>
Operating income	<u>1,290</u>
Non-operating revenues	
Earnings on investments	1,056
Interest earned from project escrows	7
Unrealized loss on the fair market value of investments	<u>(174)</u>
Total non-operating revenues	<u>889</u>
Change in restricted net assets	2,179
Total restricted net assets - beginning of fiscal year (as restated)	<u>37,706</u>
Total restricted net assets - end of fiscal year	<u>\$ 39,885</u>

See notes to financial statements.

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

STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED MARCH 31, 2011
(in thousands)

	<u>2011</u>
Cash flows from operating activities	
Administrative fee	\$ 275
Repayment and recaptured funds received from homeowners	1,175
Administrative expenses	(803)
Appropriations received for housing grants	24,887
Housing grants	(22,221)
Earnings on investments	<u>1,525</u>
Net cash used in operating activities	<u>4,838</u>
Cash flows from investing activities	
Proceeds from sale or maturities of investments	35,919
Purchase of investments	<u>(41,190)</u>
Net cash used in investing activities	<u>(5,271)</u>
Net decrease in cash	(433)
Cash at beginning of fiscal year	<u>834</u>
Cash at end of fiscal year	<u>\$ 401</u>
Reconciliation of operating income to net cash used in operating activities	
Operating income	\$ 1,290
Adjustments to reconcile increase in net assets from operating activity to net cash used in operating activities:	
Increase in housing grants payable	745
Increase in accounts and other receivables/payables (net)	1,278
Earnings on investments	<u>1,525</u>
Net cash used in operating activities	<u>\$ 4,838</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, 2011

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, 2011, the State has appropriated \$732 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.

The financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

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.

Earnings on Investments - Investment earnings are accrued and recognized as revenue when earned.

Accounting Pronouncements - In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Corporation has elected not to apply Financial Accounting Standards Board (“FASB”) statements issued after November 30, 1989.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB No. 62”). This Statement will improve financial reporting by incorporating into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB statements and the American Institute of Certified Public Accountants (“AICPA”) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB No. 62 will supersede Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The requirements of GASB No. 62 are effective for financial statements for periods beginning after December 15, 2011. The Corporation has not completed the process of evaluating the impact of GASB No. 62 on its financial statements.

Cash Flows - The Corporation prepares its statements of cash flows using the direct method in accordance with GASB Statement No. 34.

3. **RESTATEMENT**

The Corporation has restated the amount reported for restricted net assets as of March 31, 2010. This restatement was required to comply with the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

As a result of the restatement noted above, the following account was restated on March 31, 2011 as follows:

	March 31, 2010 (As Previously Stated)	Adjustment <i>(in thousands)</i>	March 31, 2010 (As Restated)
Restricted net assets	\$ 3,083	\$ 34,623	\$ 37,706

4. **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 \$2,081,000 for various expenses, including salaries, in fiscal year 2011.

5. CASH AND INVESTMENTS

The Corporation has a formal investment policy, which provides for the investment of all Corporation funds.

At March 31, 2011, the value of investments, including accrued interest, which were held by depositories in the Corporation's name, was approximately \$41,455,000 and the collateralized cash amounted to \$401,000. 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*. Earnings on Investments include changes in the fair value of investments and are reported as operating revenue.

As of March 31, 2011, the Corporation held the following investments with maturities as follows:

Values below are at fair value excluding accrued interest:

Investment Type	March 31, 2011				
	Investment Maturities (In Years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
	<i>(in thousands)</i>				
U. S. Treasury Bills	\$ 9,268	\$ 9,268	\$ —	\$ —	\$ —
Government Agencies:	31,798	5,715	25,393	690	—
Grand Total:	\$ 41,066	\$ 14,983	\$ 25,393	\$ 690	\$ —

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.

Investment Policy- 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, 2011, all Corporation funds were invested in accordance with the applicable policy.

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.

6. 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 \$158,000 in 2011 and \$96,000 in 2010. Corporation employees were required to contribute approximately 1.3% of the current year's covered payroll (totaling approximately \$56,000 in 2011 and \$57,000 in 2010).

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 year 2011 and \$4.2 million in fiscal year 2010.

Changes in benefit provisions and actuarial assumptions did not have a material effect on contributions during fiscal years 2011 and 2010.

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:

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 \$219,645 during fiscal year 2011.

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.

7. COMMITMENTS

As of March 31, 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.

8. 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 Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Board Members of the
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 year ended March 31, 2011, and have issued our report thereon dated June 14, 2011. 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

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 Board of Directors, 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 14, 2011