MINUTES OF THE
35th TOBACCO SETTLEMENT FINANCING CORPORATION
AUDIT COMMITTEE
HELD ON TUESDAY, JANUARY 28, 2014 at 9:28 A.M.
AT ITS OFFICES AT
641 LEXINGTON AVENUE
NEW YORK, NY 10022

MEMBERS AND DESIGNEES

PRESENT:

Kenneth M. Bialo	Committee Chairman
Elaine McCann	New York State Division of the Budget, Representing Robert Megna, Member (via videoconference)
Andrew A. SanFillippo	Member

Mr. C. Jason Kim, Senior Vice President and Counsel to the Agencies, acted as Secretary. He noted that the Housing Finance Agency ("HFA")/Affordable Housing Corporation ("AHC") Governance Committee Chairman, Steven J. Weiss, is attending the meeting from the Agencies' Buffalo Regional Office at Electric Tower, 535 Washington Street, Suite 105; He also noted that Ms. Elaine McCann and Ms. Linda Baldwin, are attending the meeting via video conference from the New York State Division of Budget conference center at the Capitol Building, Room 131, in Albany; also, Ms. Marge Rogatz, Governance Committee Director, is attending via video conference from the office of Expedia at 325 Duffy Avenue, Hicksville, NY; additionally, Ms. Aida Brewer is attending via teleconference. A public notice was given of the time and location of the venue in accordance with the New York State Open Meetings Law.

Mr. Kim asked for motions and seconds to call the Audit Committee meetings to order of the New York State Housing Finance Agency (HFA), the New York State Affordable Housing Corporation (AHC), the State of New York Mortgage Agency (SONYMA), the New York State Municipal Bond Bank Agency (MBBA), and the Tobacco Settlement Financing Corporation (TSFC). Ms. Elaine McCann moved to call the HFA and AHC meetings to order; Commissioner Thomas H. Mattox seconded the motion. Mr. Anthony Bergamo moved to call the SONYMA meeting to order; Ms. McCann seconded the motion. Mr. Andrew A. SanFilippo moved to call the MBBA and TSFC meeting to order; Mr. Bialo seconded the motion.

Mr. Kim stated that as items are presented to each Committee throughout the meetings, these motions and seconds, will be used, unless specific items call for a different vote, or unless any Committee member wishes to record his or her vote differently.

Mr. Kim reported that Commissioner Towns is the Audit Committee Acting Chairman for the HFA and AHC Audit Committees and in his absence, Commissioner Mattox will chair the Committee meetings for HFA and AHC. Mr. Bergamo is the Audit Committee Chairman for SONYMA and will chair the Committee meeting for SONYMA. Mr. Bialo is the Committee Chairman for MBBA and TSFC and will chair the Committee meetings for MBBA and TSFC. The meetings of the Audit Committees of the affiliated agencies were opened in joint session for the consideration of various mattes of shared importance. These minutes reflect only those items being considered by the Members of the Tobacco Settlement Financing Corporation (TSFC). A record of items considered by the Audit Committees of the other affiliated agencies is contained in the minutes of each Committee respectively. Mr. Kim stated that for purposes of convenience and to make sure the meetings of the respective agencies go smoothly, items shared by one or more of the Agencies will be presented by MBBA/TSFC Committee Chairman Kenneth Bialo.

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The first item on the agenda was the adoption of the minutes of the 34th TSFC Audit Committee meeting held on December 10, 2013. Absent comments or corrections from the Directors, the minutes were deemed approved.

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The next item on the agenda was a resolution approving the Agencies' Financial Statements for Fiscal Year 2014. Ms. Sheila Robinson, Chief Executive Officer, asked for the Committee's consideration and adoption of the Financial Statements for Fiscal Year 2014. She noted that in accordance with Section 56 of the Private Housing Finance Law, such annual financial statements must be submitted in an annual report to certain public officials within ninety days after the end of the fiscal year. She provided Agency highlights for the calendar year which ended October 31, 2013.

Ms. Robinson said that HFA issued approximately $1 Billion Dollars in bonds to fund 27 new projects and additional tranches for five (5) existing projects with nearly 4,500 units, of which over 3,000 are affordable. She said that this included four (4) Mitchell Lamas with 972 units. She said that HFA stretched the state's volume cap further by refunding over $185 Million Dollars of HDC and HFA bonds into seven (7) HFA projects.

Ms. Robinson said that SONYMA issued approximately $325 Million Dollars in bonds to fund 1,704 mortgages and generated savings of over $13 Million Dollars. She said that SONYMA continued to focus its efforts on underserved communities and noted that 62% of all loans were made to homebuyers with incomes of 80% AMI, or less and 36% were made to minority homebuyers.

Ms. Robinson said that SONYMA's MIF terminated an underperforming investment management contract with Deutsche Asset Management Group, bringing the investments back in-house, resulting in annual management fee savings of approximately $342,000. She said that SONYMA MIF insured eighty-four (84) project loans totaling over $400 Million Dollars which financed more than 7,600 units.

Ms. Robinson said that AHC funded 807 low-to-moderate income housing units located in 22 of New York State's counties.

Ms. Robinson said that TSFC refunded approximately $1.2 Billion Dollars of bonds which generated present value savings of approximately $98 Million with expected cash flows. She said that administrative expenses for the combined agencies were 6.5% under budget.

Ms. Robinson said that MWBE achievements were as follows:

Procurement	33.55%
Construction	18.60%
Bond-Related	13.97%

Ms. Marian Zucker, President, Finance and Development, discussed the Municipal Market as it relates to general market themes and the housing sector recovery, noting that the Agency is still operating in a historically low interest rate environment (30-year MMD averaged 3.62%). She highlighted the interest rate volatility, especially impactful in May and June of 2013. She noted that the multi-family business has really driven the market over the last five years. She also noted the Agencies' focus on Governor Andrew Cuomo's initiatives last year, especially with regard to Medicaid Redesign Funding and Capital, and emphasized the expansion of the private placement program. She then discussed the 2013 refundings involving TSFC ($1.225 Billion Asset Backed Revenue Bonds 2013 Series A and B) and SONYMA (Mortgage Revenue Bonds, Forty-Eighth Series/Homeowner Mortgage Revenue Bonds, Series 178-180). She reported that the Agencies continue to reach out to investors as they look to expand the pool of buyers. She also noted the slide that showed a five-year comparison of bonds issued (FYs 2009-2013). She reported that the Agencies have approximately $16.98 Billion Dollars outstanding as of October 31, 2013.

HFA/AHC Committee Member, Commissioner Thomas H. Mattox inquired about the major "players" in the affordable housing industry in New York State. Ms. Zucker reported that New York City Housing Development Corporation (NYCHDC), HFA and SONYMA accounted for over 25% of the housing bond market last year.

Mr. Gary Weinstock, Vice President/Comptroller, then proceeded to discuss the PowerPoint Presentation, which was also provided in hard copy, entitled, *HFA, SONYMA, MBBA & TSFC Fiscal Year 2013 Financial Statements Presentation.*

Mr. George Leocata, Senior Vice President, Finance and Development, highlighted slide #17 which compares SONYMA mortgage rates to other conventional rates based on a Freddie Mac Mortgage Market Survey which covered years 2008-2014. Mr. Leocata noted that the Agency was headed to its best year until the events of the fall of 2008, culminating in the Lehman bankruptcy. He also highlighted the next slide which was a comparison of the 2013 loan reservations based on a 10-year average. Additionally, he highlighted the annual production based on the Achieving a Program established in order to allow people with the highest need and lowest assets to borrow to purchase a home. He noted that the next slide highlights the fact that since 2011, more than 60% of the loans purchased by the Agency were going to individuals in this group, which showed that the Agency is accomplishing its mission.

Mr. Leocata reported that minority production continued its trend upward and said that in 2012 it topped 40% for the first time and that in 2013 it remained above 40%. He then proceeded to discuss the delinquencies compared to state and national averages, stating that the Agency is still performing favorably in comparison to the State (10.3%) and national markets, noting the $4.48% delinquency rate as of September 30, 2013 for SONYMA. Mr. Bergamo asked if there was a common factor in terms of delinquencies. Mr. Leocata reported that delinquencies tend to be related to unemployment.

Commissioner Mattox asked about benefits to veterans. Mr. Leocata provided a synopsis of veteran's programs offered.

Mr. Michael A. Friedman, Senior Vice President, highlighted certain information contained in the materials provided to the Directors in connection with this item. He discussed the Mortgage Insurance Fund ("MIF") monthly tax surcharge collections, the MIF project commitments by loan amount and the units, and stated that the Agency is doing well in terms of collections; he noted that the collection of the mortgage recording tax is back to where it was before the recession in 2008 and said that the Agency has recovered to historic levels.

Mr. Friedman continued on to slide 25 which showed multifamily loan commitments by project amount. Mr. Desmond Gooding, Vice President and Treasurer, discussed the SONYMA liquidity agreements and the performance of its swaps.

Mr. David Milkosky, Mr. Louis Roberts and Mr. Randy Nelson, all representatives from Ernst & Young, LLP were in attendance and presented the results of their audits of the financial statements of the Agencies.

Mr. Roberts began by reporting that the AHC audit report will be presented in June 2014. His presentation included, a comparison of the total revenues (inflows/outflows) for the Agencies (Page 4) and an illustration of the trend of the Net Position (Page 5). He referred to the audit results booklet containing the HFA, SONYMA, MBBA and TSFC 2013 Financial Statement Audit Results and provided a brief overview

Mr. Roberts directed the Board's attention to the Peer Review Report for the Fiscal Year ended June 30, 2013 and conducted by KPMG LLP wherein E&Y received a peer review rating of "pass" (their system of quality control for their accounting and auditing practices is in conformity with professional standards). He explained that firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. He then discussed p. 3 summarizing Ernst & Young services. It was noted that upon the Board's approval of this report, a single audit will be conducted in the Spring and a formal report will be issued in April 2014.

Mr. Roberts reported that page 4 of the handout is an Executive Summary which notes the significant 2013 considerations and key audit result matters. He remarked that the Agencies' scope of work is consistent with its plan and there were no noteworthy issues. He stated that pages 5-7, highlighted areas of emphasis; the external auditors have issued a clean, unqualified report.

Mr. Roberts reported that there were no items to note with respect to operating expenses, which management reviews annually. Ernst & Young is suggesting that the Agencies review operating expenses bi-annually to account for changing roles. He also highlighted key areas on pages 6 and 7 and noted that there were no significant issues.

SONYMA Audit Committee Chairman, Mr. Bergamo asked if Ernst & Young has a plan for the internal audit group for next year. Mr. Roberts confirmed that a risk assessment is expected to be conducted. Mr. Bergamo also asked whether internal audit Agency staff were required to take continuing education classes. Mr. Chopey confirmed that staff are meeting the necessary certification requirements and continuing education is included in the budget.

Mr. Bergamo then inquired about Ernst & Young's role as it relates to information technology ("IT"). He asked whether it was appropriate for Ernst & Young to be involved with the information technology of the Agencies. Mr. Roberts explained that in all audits, a certain amount of reliance is placed on the IT infrastructure and applications, in order for Ernst & Young to rely on reports generated by the system. Mr. Bergamo expressed concern that the management letter showed substantial issues with IT. Mr. Roberts explained that even though Ernst & Young made certain recommendations, it performs subsequent testing to ensure there is no misuse of the system. A representative from the Agency Information Technology department advised that the outstanding issue with respect to passwords will be corrected, but requires the cooperation of the vendor. Mr. Leocata stated that, typically, this vendor's response is slow when it comes to responding to staff. This response generated a discussion among Board members and staff as to ways in which the particular vendor should be approached to ensure that the Agencies' interests are not shortchanged. Commissioner Thomas Mattox suggested that a meeting be set up with the vendor, or a new one should be hired to provide the necessary services. It was noted that the software in question was used for years, supports single family housing operations and may be considered a sole source for products used since the 1980s. Mr. Bergamo suggested that legal options be considered if the unresponsiveness continues.

Mr. Roberts then directed the Board's attention to Page 8 and Page 9: the summary of required communications. He noted that there were no significant unusual transactions. Mr. Bergamo asked if there was anything in the footnotes that would cause alarm and Mr. Roberts responded in the negative.

Mr. Roberts then turned to page 19 which highlighted fraud considerations. Later, he moved to the Management letter. He referred to his firms' four recommendations. The first item is related to a non-information technology matter. The second, on page 2, refers to some information technology recommendations, i.e. developer access to production. The third item had to do with password settings recently discussed and the final item related to a segregation of duties with certain departmental Vice Presidents having dual responsibilities (one department should provide authorization and the other should control). Also, he noted, Ernst & Young would be more comfortable with stronger language with respect to remediation.

Board members agreed that a more specific time-frame be offered in Management's response to problem areas. Staff noted that the management letter response will be amended in accordance with the recommendations of this Committee.

Mr. Roberts further reported that there were no significant and unusual transactions, no significant issues discussed with management prior to hiring Ernst & Young to do the audit, no serious difficulties encountered in dealing with management, no material alternative accounting treatments and no other significant matters, other than this report and the Representation Letter. With regard to any third-party service providers, it was noted that providers are used in accordance with MBE firms to assist in performing the audit.

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY STATE OF NEW YORK MORTGAGE AGENCY STATE OF NEW YORK MUNICIPAL BOND BANK AGNECY AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES APPROVING AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2013

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The next item on the agenda was an information item regarding the Eighth Annual Evaluation by the Audit Committees. Mr. Weinstock asked that the Board members respond particularly in terms of what kinds of training it is interested in as it relates to accounting methods, etc. It was noted that information in connection with this item was contained in the materials provided, which materials are incorporated herein by reference. There was no discussion on this item.

There being no unfinished business Mr. SanFilippo moved to adjourn; Mr. Bialo seconded the motion and the meeting was adjourned at 11:02 a.m.

Mr. Kim announced that the next Governance Committee meeting would be held on Tuesday, April 8, 2014 at 9:00 a.m.

C. Jason Kim, Secretary