MINUTES OF THE
40TH MEETING OF THE
TOBACCO SETTLEMENT FINANCING CORPORATION
AUDIT COMMITTEE
HELD ON THURSDAY, JANUARY 29, 2015 AT 8:15 A.M.
AT ITS OFFICES AT
641 LEXINGTON AVENUE
NEW YORK, NY 10022

MEMBERS AND DESIGNEES

PRESENT:

Andrew A. SanFilippo	Member
Elaine McCann	New York State Division of the Budget, representing Mary Beth Labate, Member (via video conference)

ABSENT:

Kenneth M. Bialo	Committee Chairman

Mr. Andrew SanFilippo presided over the meeting in the absence of Mr. Kenneth Bialo, Committee Chairman.

Mr. C. Jason Kim, Senior Vice President and Counsel to the Agencies, acted as Secretary. He noted that Elaine McCann, representing Budget Director, Mary Beth Labate, from the Division of the Budget, Commissioner Thomas Mattox from the New York State Department of Taxation & Finance and Linda Baldwin representing Cesar Perales, Secretary of State are participating in the meeting via video conference from the New York State Division of Budget conference center at the Capitol Building Room 131 in Albany; Andrew SanFilippo is attending the meetings from the Agencies' Buffalo Regional Office at Electric Tower, 535 Washington Street, Suite 105 and Marge Rogatz is attending via video conference from ACT Conferencing at 102 3rd Street Mineola NY 11501. A public notice was given of the time and location of the venues 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) and the New York State Affordable Housing Corporation (AHC); the State of New York Mortgage Agency (SONYMA); the State of New York Municipal Bond Bank Agency ("MBBA") and the Tobacco Settlement Financing Corporation ("TSFC"). Commissioner Towns moved to call the HFA and AHC meetings to order; Mr. Curtis seconded the motion. Ms. McCann moved to call the SONYMA meeting to order; Commissioner Towns seconded the motion. Mr. SanFilippo moved to call the MBBA and TSFC meetings to order; Ms. McCann 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 Steven J. Weiss is the Governance Committee Chairman for the New York State Housing Finance Agency and the New York State Affordable Housing Corporation; that Kenneth M. Bialo is the Acting Chairman for MBBA and TSFC and in his absence Mr. Andrew SanFilippo will chair the meeting for MBBA/TSFC and that Commissioner Darryl C. Towns will be the Acting Chairman for SONYMA.

The meetings of the Audit Committees of the affiliated agencies were opened in joint session for the consideration of various matters of shared importance. These minutes reflect only those items being considered by the Tobacco Settlement Financing Corporation (TSFC). A record of items considered by the Audit Committee 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 SONYMA Acting Committee Chairman Towns.

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The first item on the agenda was the adoption of the minutes of the 40th MBBA Audit Committee meeting held on December 9, 2014. 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 recommending the approval of the Agencies' Financial Statements for Fiscal Year 2014. Ms. Robinson said that she is here with her staff to discuss the HFA, SONYMA, MBBA and TSFC Financial Statements for the Fiscal Year ending October 31, 2014. She said that the New York State Affordable Housing Corporation has a Fiscal year ending March 31 and the Financial Statements will be presented at the June 2015 meeting. She said with respect to the HFA, pursuant to 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; this report has been posted on the company's website.

Ms. Robinson directed the Members' attention to the Agencies' Highlights consisting of a one page document that was included in the Members' folders for the Calendar Year 2014 which she noted was "a year of great accomplishments." Ms. Robinson said that the New York State Housing Finance Agency (HFA) and the State of New York Mortgage Agency (SONYMA) combined makes the Agency the top housing bond issuer in the nation by issuing over $2 billion in housing bonds. She said that HFA issued approximately $1.6 billion in bonds to fund thirty-five (35) new and seven (7) existing projects with a total of nearly 10,500 units of which over 6,100 are affordable. She said they included four Mitchell Lamas consisting of 1,605 units.

Ms. Robinson said HFA implemented its new Multifamily Volume Cap Preservation (MVP) program to more efficiently capture multifamily prepayments. She said HFA maximized the use of the state's volume cap by refunding over $175 million of HDC HFA bonds into ten (10) HFA projects. Ms. Robinson said HFA and SONYMA's investment banker appointments resulted in MWBE firms receiving over 30% of underwriting compensation.

Ms. Robinson said SONYMA issued approximately $420 million bonds to fund 831 mortgages and to generate savings of over $26 million. She said its mortgage-backed security programs, Conventional Plus and FHA Plus, financed 202 mortgages totaling $40.3 million. She said SONYMA continues to focus its efforts on underserved communities and that 66% of all loans were made to homebuyers with incomes of 80% AMI or less and 39% were made to minority homebuyers. She said SONYMA received the 2014 National Council of State Housing Agencies' Management Innovation in Technology award for the successful launch of SONYMA Express. She said SONYMA replaced and/or extended thirteen (13) liquidity facilities supporting $505 million of variable rate bonds, expanded the Agencies' pool of providers with two additional Aa rated banks and lowered the overall liquidity costs.

Ms. Robinson said SONYMA Mortgage Insurance Fund insured ninety-three (93) project loans totaling over $500 million which financed 8,983 units. She said AHC funded 2,012 low to moderate income housing units located in forty-nine (49) of New York State's counties. Mr. Robinson said administrative expenses for the combined agencies were 6.3% under budget. She noted that MWBE State's Fiscal Year 2014 achievements are in the area of procurement (33.46%), construction (15.06%) and bonds (14.00%).

Mr. Darryl Johnson, Deputy Controller provided an overview of the HFA, SONYMA, MBBA & TSFC Fiscal Year 2014 Financial Statements. He began by referring the Directors/Members to the first two slides on the handout that provide a comparison of assets and said that the net position is trending slightly upward.

Ms. Marian Zucker, President, Finance & Development reviewed the market environment in which the Agencies operate and highlighted the Agencies achievements in the third and fourth quarters of 2014. She reported that short-term interest rates are expected to remain low until later in 2015. She said last year, (2014), the Agencies experienced some modest gains in the equity market. She reported that unemployment rates have come down. She said in the housing sector, there was a moderate increase in home prices with some tapering off of existing home sales. She noted that home ownership rates have dropped. She said this year the Agencies plan to take advantage of refunding opportunities.

Ms. Zucker highlighted the "critical drivers" of the Agencies' activities which include implementation of new 80/20 financing policy. She said there was quite an increase in demand for multifamily housing last year and the Agencies started a new financing structure for affordable deals.

Mr. Weinstock, Vice President/Comptroller reported that the next slide (Slide 13) represented a five-year comparison of bonds issued and Slide 14 showed the total bonds outstanding categorized by Agency. He said Slide 16 compares the SONYMA mortgage rate with the conventional rates and demonstrates how the SONYMA has had difficulty with keeping up with the conventional rates since

the financial crisis. He said, for example, in 2008 the Agency had a significant advantage over conventional rates and in 2009, it struggled to maintain its competitiveness.

HFA/AHC Member, Ms. Joyce L. Miller asked about the negative differential. Mr. Weinstock responded that when the Federal Government subsidizes treasuries, the Agencies struggled to maintain a competitive rate. He noted that the Agency launched two programs in late 2012, one of which was a conventional program with Fannie Mae which included special pricing, underwriting advantages and down payments.

Ms. Zucker pointed out that SONYMA enjoys a triple A or double A rating and is "really well received in the market". She said SONYMA represented a more conservative approach to borrowing where the Agency can lower the rate but increase the risk profile. She said Habit for Humanity and the Achieving the Dream program were the best performing programs by far. She referred the Directors/Members to a chart that appeared on Slide 20 that showed the comparison of Annual Production by Financing Type, i.e. SONYMA's FHA Plus program which consists of 12% of SONYMA's production. She said lending to minority communities has been 40%. Ms. Zucker said the national average for loan delinquencies had decreased but the State averages are the same. She noted that the Agency's portfolio shrunk recently and it has lost over 25% of its portfolio since 2008. She said although SONYMA is trying to do everything to keep homebuyers in their homes, 55% of the loans that are delinquent are in foreclosure.

Ms. Zucker referring the Directors/Members to SONYMA's strategic plans for growth and how it plans to have lender partners, expand consumer direct outreach and enhance marketability by revising the Agency's website of FHA and Conventional Plus Programs.

Ms. McCann publically thanked everyone for the work that has been done under the most challenging circumstance, in a difficult environment and still outsold others despite challenges. She said "This was an enormous amount of work and staff should be thanked".

Mr. Michael Friedman Senior Vice President and Director of the Mortgage Insurance Fund reported on the SONYMA Mortgage Insurance Fund. He reported that the mortgage recording surtax collection has recovered from 2009-2011 and the Agency is back to where it was in a more normal environment before the stock market crash. He referred the Directors to the slide that showed MIF multifamily commitments by loan amounts, i.e. Community Preservation Corporation, NYSHFA, NYCHDC and Wells Fargo ($50,000 loan from Co-op City).

Mr. Friedman provided an overview of the SONYMA Liquidity and SWAPS which was provided in November, 2014, and noted that the Agency terminated the Bank of America facility. He referred the Directors to slide (Slide 30) that provided a breakdown of SWAP providers as of 10/31/2014.

It was noted HFA had quite a banner year compared to the last seven (7) years where twice as many affordable loans were provided, partly driven by the demand for projects to get into the ground." It was also noted that the HFA closed on thirty-five loans last year.

Mr. Weinstock reported that there are $12.7 billion dollars in outstanding bonds.

MBBA/TSFC Committee Member/Director, Mr. Andrew SanFilippo asked if there were other opportunities to refund the MBBA bonds and noted that there were no bond issuances during fiscal year 2014; senior management is unsure of whether there are additional opportunities.

Mr. Gary Weinstock reported that there are bonds outstanding of $1.9 billion dollars for TSFC.

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, THE STATE OF NEW YORK MORTGAGE AGENCY, THE STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY, AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES APPROVING AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2014

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The next on the agenda was a resolution approving Internal Audit's follow-up Audit of 2013 Audit Reports. Mr. Louis Roberts, Partner, Ernst & Young LLP, presented the 2014 Audit Results noting that the scope of the audit was consistent with the plan presented back in August 2014. He reported on the services provided by Ernst & Young and noted that Ernst & Young will issue an unmodified opinion on the financial statements and issue a report on internal controls. He said there were no significant issues to report; that all judgments were reasonable and consistent with policies and there were no uncorrected misstatements. He said it is recommend that in 2016 more effort will be put into reviewing what is presented by the actuary.

Mr. Roberts reported that there was a review made of Information Technology ("IT") general controls and they used their IT Audit team to walk through the IT general controls in support of the audit and found that there were no significant issues, however, he said, recommendations were made for the segregation of duties.

Management reported that it does periodic back-up recovery testing once a year and penetration third-party testing.

Mr. Kim noted that all recommendations have been implemented and necessary corrections have been made.

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

A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION, REVIEWING AND APPROVING INTERNAL AUDIT'S FOLLOW-UP OF 2013 AUDIT REPORTS

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The next item on the agenda was a resolution approving the Internal Audit's Treasury Department Audit Report. Mr. Chopey, Vice President, Internal Audit, explained that an examination of the accounting records and system of internal controls were conducted for the Treasury Group on July 31, 2014. He reported that in accordance with the Agencies' Investment Guidelines, the investment portfolio comprised of U.S. Treasury securities and Federal and New York State obligations. He said, in addition, the Agencies have entered into a number of investment agreements with financial institutions where the Agencies are providing investment funds against and which acceptable collateral has been pledged under separate collateral agreements. He said additionally, the Treasury Group is also responsible for monitoring tax-exempt bonds. Mr Chopey said, as of the audit date, SONYMA had twelve (12) active SWAP agreements totaling approximately $420 million.

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

A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY ANDTOBACCO SETTLEMENT FINANCING CORPORATION, REVIEWING AND APPROVING INTERNAL AUDIT'S TREASURY DEPARTMENT AUDIT REPORT

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The next item on the agenda was a resolution approving the Internal Audit's Human Resources Audit Report. Mr. Chopey reviewed the accounting records and system of internal control for the Agencies' Human Resources Group ("HR") as of May 31, 2014. He described the main function of HR which is to provide effective policies, procedures and guidelines to ensure that the Agencies' mission and program goals are achieved. He said HR are responsible for the recruitment of staff, administration of employee salaries and benefits and ensuring that the Agencies are compliant with state and federal policies and laws. He said this group teams up with management to select the best candidate for open positons. Mr. Chopey said this group also ensures that staff members are afforded the employee benefits provided by the Agencies as part of the terms of their employment agreement, i.e. Pension, and Healthcare.

Mr. Chopey noted that as of the audit date, the Agencies had a total of 191 staff members whose biweekly gross funding totaled approximately $274,000 for HFA and $352,000 for SONYMA.

Mr. Chopey said Internal Control recommendations and established procedures consist of the following:

1) Perform a vulnerability risk assessment of the critical functions performed by the unit annually.
2) Strengthen internal controls by revising the Agencies' HR procedural manual to document the current operating policies and procedures in order to create a better work environment.
3) Adhere to the Agencies policies and procedures with regard to the hiring of new employees.
4) Adhere to the Agencies' policies and procedures regarding the retention of employee personnel records.
5) Strengthen internal controls with regard to the allocation of employee salaries.
6) Strengthen controls by reestablishing the annual employee performance evaluation.
7) Strengthen controls by notifying IT management when an individual or consultant has terminated their employment with the Agencies.
8) Advise department managers and supervisors to take a more proactive role in monitoring employees who are on a flextime schedule.
9) Strengthen controls with regard to maintaining cash balances in payroll accounts.
10) Reconcile the monthly health insurance billing invoice prior to obtaining the management's approval for payment.

Mr. Chopey noted that there was disagreement related to Item 3.

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted with the exception of the above-mentioned item:

A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION, REVIEWING AND APPROVING INTERNAL AUDIT'S HUMAN RESOURCES AUDIT REPORT

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The next item on the agenda was an information item regarding the Ninth Annual Evaluation by the Audit Committee. It was noted that information in connection with this item was contained in the materials provided to the Members, which materials are incorporated herein by reference. There was no discussion on this item.

The next item on the agenda was an information item regarding the Ninth Annual Evaluation by the Audit Committee. It was noted that information in connection with this item was contained in the materials provided to the Members, which materials are incorporated herein by reference.

Mr. Kim noted that the questionnaire for this annual evaluation needs to be completed and emailed or faxed to Mr. Weinstock on or before Tuesday, February 17, 2015. He said the results of

this performance evaluation will be presented at the next meeting of the Committees scheduled to be held on Tuesday, April 7, 2015 at 9:00 a.m.

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There being no unfinished business, Ms. McCann moved to adjourn; Mr. SanFilippo seconded the motion and the meeting was adjourned at 9:41 a.m.

C. Jason Kim, Secretary