MINUTES OF THE
38TH MEETING OF THE
TOBACCO SETTLEMENT FINANCING CORPORATION
AUDIT COMMITTEE
HELD ON TUESDAY, SEPTEMBER 9, 2014 AT 9:02 A.M.
AT ITS OFFICES AT
641 LEXINGTON AVENUE
NEW YORK, NY 10022

MEMBERS AND DESIGNEES

PRESENT:

Kenneth M. Bialo	Committee Chairman
Andrew A. SanFilippo	Member
Renee Nowicki	New York State Division of the Budget, representing Robert Megna, Director (via video conference)

Mr. Kenneth M. Bialo presided over the meeting.

Mr. C. Jason Kim, Senior Vice President and Counsel to the Agencies, acted as Secretary. He noted that Mr. Steven J. Weiss, HFA/AHC Governance Committee Chairman is attending the meeting from the Agencies' Buffalo Regional Office at Electric Tower, 535 Washington Street, Suite 105 as a guest. He also noted that Ms. Renee Nowicki, representing Budget Director, Robert Megna, from the New York State Division of Budget is attending the meeting via videoconference from the New York State Division of Budget conference center at the Capitol Building, Room 131, in Albany; and that Ms. Marge Rogatz, SONYMA Governance Committee Director is attending via videoconference as a guest from the office of Expedia at 325 Duffy Avenue, Hicksville, NY. 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 Mattox moved to call the HFA and AHC meetings to order; Ms. Nowicki seconded the motion. Mr. Bergamo moved to call the SONYMA meeting to order; Ms. Nowicki seconded the motion. Mr. Andrew A. SanFilippo moved to call the MBBA and TSFC meeting to order; Mr. Kenneth 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.

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 Members of the Tobacco Settlement Financing Corporation (TSFC) Audit Committee. 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 TSFC Audit Committee 37th meeting held on June 10, 2014. Absent comments or corrections from the Members, the minutes were deemed approved.

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The next item on the agenda was a resolution recommending the approval of Administrative Budget Request & Financial Plans for FY2015. Ms. Sheila Robinson, Senior Vice President and Chief Financial Officer discussed the Agencies' Fiscal Year 2015 Administrative Budget and Financial Plans, accompanied by Deputy, Darryl Johnson and Vice President and Comptroller, Gary Weinstock. Ms. Robinson stated that approval is required for three (3) items. The first is the 2015 Administrative Budget request which is an estimate of combined resources needed to administer the five (5) Agencies and covers the operations of the Agencies. The second was the approval of each Agencies' financial plan, and the third involves the approval of the Cash/Program Budgets for HFA and MBBA which are required to be filed, in accordance with statute, with the respective bond trustees.

Ms. Robinson reported that the revenues generated by HFA, SONYMA and MBBA provide the majority of revenues for the budget and AHC receives an annual appropriation from the State to cover a portion of their expenses. She said that revenue sources for the administrative budget consist of $32.8 million from HFA. $21.3 million from SONYMA, and less than 5% from MBBA, TSFC and AHC combined. She said the results of the budget process are close to last year's and closely aligned the expenses to actual costs.

Ms. Robinson stated that the budget increased by 1.98% (emphasizing that the increase was maintained below the 2% level), and included an increase for Information Technology maintenance costs, plus increases for the replacement of aging equipment and anticipated new hires (an increase in staffing from 174 to 192). Ms. Robinson credited Ms. Sharon Devine with regard to the ten (10) recent hires that are in the queue for approval.

Ms. Robinson also stated that discretionary spending continues to be less than 7% of the budget and remains flat. She said that as for financial plans, staff reached out to the Comptroller's Office to receive approval to use accumulated funds available. She said that this change was agreed to by their Office. She stated that no deficits will exist for the next four (4) years and as for the

preliminaryCash/Program Budgets these show sufficient funds. She noted that the Final Cash/Program Budgets will be presented for Member's and Director's approval in January 2015.

Ms. Robinson concluded her report by thanking her staff and others at the Agencies who participated in the process.

MBBA/TSFC Committee Chairman Mr. Bialo asked about the revenue of sources found on page 16 of the proposed budget detailing revenue sources, and questioned the relationship of those figures to the Master Settlement Agreement. He also asked whether Tobacco revenues were coming in as projected. Mr. Alejandro J. Valella, Vice President and Deputy Counsel to the Agencies, confirmed that the revenues on page 16 excluded the disputed amounts and noted that revenues were coming in as projected.

MBBA/TSFC Director/Member, Mr. SanFilippo asked about labor costs increasing over 5%. Ms. Robinson noted that the increase represents the new hires that are anticipated. She confirmed that as far as projections for the MBBA and TSFC are concerned, charges for the services are going down significantly because no more bond issuances are anticipated.

MBBA/TSFC Committee Chairman Bialo commented favorably on the Agencies finances.

MBBA/TSFC Director/Member, Mr. SanFilippo asked about the impact of the loss of three (3) jobs from Internal Audit. Ms. Robinson confirmed that the Department was, in fact down by two (2) employees. She said the department now has a staff of four (4) full-time staff which she understands from Mr. Chopey is sufficient for the work of the department to get done. Mr. Bialo asked if the compensation levels had to be raised to attract candidates. Ms. Robinson responded that it had not been necessary to increase remuneration to attract eligible candidates.

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

A RESOLUTION OF THE AUDIT COMITTEES 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 AGNECY AND TOBACCO SETTLEMENT FINANCING CORPORATION ADOPTED AN ADMINISTRATIVE BUDGET FOR FISCAL YEAR NOVEMBER 1, 2014 TO OCTOBER 31, 2015 AND FINANCIAL PLANS FOR FISCAL YEARS 2015, 2016, 2017 AND 2018 WITH RESPECT TO 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 AGNECY AND TOBACCO SETTLEMENT FINANCING CORPORATION AND THE NEW YORK STATE AFFORDABLE HOUSING CORPORATION'S FINANCIAL PLAN FOR FISCAL YEARS 2016, 2017, 2018 AND 2019, AND PRELIMINARY CASH BUDGETS FOR THE NEW YORK STATE HOUSING FINANCE AGENCY AND THE

STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY FOR FISCAL YEAR 2015

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The next item on the agenda was a discussion item in connection with the Independent Auditor's (Ernst & Young Presentation. Mr. Louis M. Roberts, Partner of Ernst and Young and Amy Wong, Assurance Senior Manager of Ernst and Young presented the 2014 Audit Plan. Mr. Roberts outlined the scope of services and presented the key considerations that will affect the fiscal year 2014 audits. He said that Ms. Wong will review the areas of audit emphasis. He noted that the accounting and auditing developments listed in the Appendices presented in the written materials provided to the Members are for informational purposes and that the peer review report was presented previously to the Audit Committee Meeting. Mr. Roberts noted that AHC will be audited in the Spring of 2015.

Mr. Roberts reported that opinions will be expressed with respect to compliance in accordance with the Office of Management and Budget ("OMB") Circular A-133. He stated that Ernst &Young will issue a written communication to Management relative to any significant deficiencies and material weaknesses identified during the audit.

Mr. Roberts noted that Ernst &Young also issued agreed upon procedures as required by Housing and Urban Development ("HUD") programs. He explained the audit plan and timetable which outlined key activities of the 2014 audit plan. He also explained that Ernst &Young was performing its year-end substantive procedures and was performing general audit procedures in order to wrap up the audits. Mr. Roberts reported that Ernst &Young will be issuing the Single Audit reports at the June 2015 Audit committee meeting.

Ms. Wong briefly reviewed the Internal Controls assessments. She noted that Ernst &Young's understanding of the processes are updated continually and was reflected in the narrative portion of the report. She also noted that Ernst &Young will be taking a look at passive investments, risk disclosures and certain cash investments as they relate to Accounts Receivable. She said that additionally, Ernst &Young will review the Agencies' hedge effectiveness determinations as well as independently fair value the Agencies' interest rate swaps, utilizing firm valuation specialists as needed. Ms. Wong reported that Ernst &Young began to evaluate internal controls over revenue and cash receipts and tested a sample of significant routine and non-routine transactions in August.

Ms. Wong reported that as it relates to litigation, Ernst &Young will review for material litigation and loss items.

Mr. Bialo inquired whether there were any changes in the program for the coming year. Mr. Roberts reported that there were none, but he said if another significant account is identified, it will be incorporated. He explained that although his team may not have included operating revenue and expenses, it was an area of audit emphasis.

SONYMA Audit Committee Chairman, Mr. Bergamo asked if the team has had an opportunity to meet with the Agencies' internal audit group. Mr. Roberts responded affirmatively and stated that an Internal Plan was completed in the past. Mr. Bergamo asked whether a four-person staff was adequate and/or sufficient to conduct the business of the Agencies. Mr. Roberts noted that although he did not feel comfortable commenting on the staffing level, he has had an opportunity to meet with past personnel and is comfortable with their background noting that Mr. Stephen B. Chopey, Vice President, Internal Audit, is in communications with Ernst & Young throughout the year.

MBBA/TSFC Director/Member, Mr. SanFilippo asked about the proposed GASB regulations which are still in draft form. He also asked that Ernst & Young advise the Directors/Members on the impact of this regulation on the Agencies in the near future. A discussion ensued involving primarily Mr. Roberts, Committee Chairman Bialo and Mr. SanFilippo concerning the impact of GASB 68 on future Agency operations. Mr. Roberts noted that it was his opinion that the pre-existing system properly accounted for pension impact, and that previous disclosures were adequate, but he noted that the rating agencies, in particular, were in support of the proposed changes

The next two items on the Agenda were information items. Information regarding these two items were contained in the meeting materials provided to the Directors/Members in advance of the meeting which are incorporated herein by reference. There were no discussions regarding the following two items:

- **Financial Statement Update 2nd and 3rd Quarter Fiscal 2014 for (HFA/SONYMA/MBBA/TSFC) and 1st Quarter Fiscal 2015 (AHC).**
- **Report of administrative budget expenditures for the nine months ending July 31, 2014 and updated financial plans.**

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There being no unfinished business Mr. SanFilippo moved to adjourn; Ms. Nowicki seconded the motion and the meeting was adjourned at 9:40 a.m.

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

C. Jason Kim, Secretary