MINUTES OF THE 42ND MEETING OF THE
NEW YORK STATE HOUSING FINANCE AGENCY
AUDIT COMMITTEE
HELD ON SEPTEMBER 11, 2012 AT 9:00 A.M.
AT ITS OFFICES AT 641 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022

MEMBERS AND DESIGNEES

PRESENT:

Darryl C. Towns	Acting Chairman
Aida Brewer	Department of Taxation and Finance, representing Thomas H. Mattox, Commissioner, Member, (via video conference)
Renee Nowicki	Division of the Budget, representing Robert Megna, Member (via video conference)

Prior to commencement of the Audit Committee meetings, Darryl C. Towns, President and CEO of the Agencies, announced that there would be a moment of silence in observance of September 11, 2001.

The meetings were opened by Kenneth M. Bialo, Audit Committee Chairman of the Municipal Bond Bank Agency (MBBA) and Tobacco Settlement Financing Corporation (TSFC). He noted that Aida Brewer and Renee Nowicki were participating in the meetings via video conference from the New York State Division of Budget conference center at the Capitol Building, Room 143, in Albany. A public notice was given of the time and location of that venue.

Steven J. Weiss, Governance Committee Chairman of New York State Housing Finance Agency (HFA) and New York State Affordable Housing Corporation (AHC), attended the meetings as a guest via video conference from the Buffalo Regional Office. Susan L. Watson, as representative for Secretary of State Cesar A. Perales, Governance Committee Director of MBBA and TSFC; and Don Lebowitz, State of New York Mortgage Agency (SONYMA) Director and Governance Committee Chairman, attended as guests. Marge Rogatz, SONYMA Director, attended the meetings as a guest via telephone.

Alejandro J. Valella, Vice President and Deputy Counsel of the Agencies, acted as Secretary and asked for motions and seconds to call the Audit Committee meetings to order of the New York State Housing Finance Agency (HFA), New York State Affordable Housing Corporation (AHC), State of New York Mortgage Agency (SONYMA), State of New York Municipal Bond Bank Agency (MBBA) and Tobacco Settlement Financing Corporation (TSFC). On behalf of HFA, Acting Chairman Bialo motioned to call the HFA Audit Committee meeting to order; Ms. Brewer seconded the motion. On behalf of AHC, Acting Chairman Bialo motioned to call the AHC Audit Committee meeting to order; Ms. Brewer seconded the motion. Chairman Bergamo motioned to call the SONYMA Audit

Committee meeting to order; Mr. Lebowitz seconded the motion. Ms. Nowicki motioned to call the MBBA Audit Committee meeting to order; Chairman Bialo seconded the motion. Ms. Nowicki motioned to call the TSFC Audit Committee meeting to order; Chairman Bialo seconded the motion. Mr. Valella stated that as items are presented to each Committee throughout the meetings, these motions and seconds would be used, unless specific items call for a different vote, or unless any Committee Member or Director wishes to record his or her vote differently.

Mr. Valella stated that due to the resignation of Royce A. Mulholland, the Committees needed to appoint an Acting Chairman for the HFA and AHC Audit Committees to chair those Agencies' Committee meetings. Mr. Valella asked for a motion and a second to appoint Darryl C. Towns, President and CEO of the Agencies, as Acting Committee Chairman for the Audit Committees of HFA and AHC until the next board appointment. Ms. Brewer made a motion, Ms. Nowicki seconded the motion, and the motion was carried.

Mr. Valella stated that Anthony Bergamo was Audit Committee Chairman for SONYMA and would chair the meeting for that Agency; and that Kenneth M. Bialo was Audit Committee Chairman for MBBA and TSFC and would chair the meetings for those Agencies. Mr. Valella stated that, for purposes of convenience and to ensure that the Committee meetings of the respective Agencies run smoothly, items shared by one or more of the Agencies will be presented by Audit Committee Chairman Bialo.

The meetings of the Audit Committees of the affiliated Agencies were opened in joint session for the President's report, the recital of Committee reports, the adoption of the minutes of previous meetings, and consideration of various matters of shared importance. These minutes reflect only those items being considered by the Members of the New York State Housing Finance Agency. A record of items considered by the Audit Committees of the other affiliated Agencies is contained in the minutes of each Committee respectively.

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The first item on the agenda was the adoption of the minutes of the 41st New York State Housing Finance Agency ("HFA") Audit Committee meeting held on June 12, 2012. 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 approval of the Fiscal Year November 1, 2012 to October 31, 2013 Administrative Budget and each Agency's Financial Plan. Chairman Bialo introduced Joanne Hounsell, Senior Vice Present and Deputy Chief Financial Officer. Ms. Hounsell stated that, for the first time this year, the respective Agencies were recommending and requesting approval of three items by the Directors and Members of the Audit Committees: approval of the Agencies' Fiscal Year 2013 Administrative Budget not to exceed $53.594 million which covers operating expenses of the five Agencies, approval of each Agency's Financial Plan, and approval of the preliminary cash budgets for HFA and MBBA. She stated that approval by the Directors and Members was required by statute, State Comptroller regulations and bond resolution. She stated that revenues generated by the operations of HFA, SONYMA and MBBA were used to support the Administrative Budget; that TSFC was reimbursed for its expenses by the

Master Settlement Agreement; and that AHC received an annual administrative fee appropriation of $275,000 from the State. She stated that revenues expected to support the Administrative Budget will be funded by $30.1 million, or 56% from HFA, $22 million, or 41% from SONYMA, and less than 3%, or $1.5 million from MBBA, TSFC and AHC combined. She stated that there was no change in the budget process during the year; that the requested $53.6 million covered only the operating expenses of the five Agencies and was an increase of $342,000 over last year's budget request. She stated that the Agencies' largest expense was salaries, which has remained at the same budget request level since 2010, and which has been under budget during those years due to vacancies. She stated that combined salaries, benefits and personnel costs totaled $27.4 million. She stated that the Agencies, which have 47 vacancies, are requesting approval of 221 authorized positions. Ms. Hounsell stated that the second largest expense category was $14.6 million for payments to New York State and its agencies; the next largest expense was $5 million for rent; and that those three categories totaled over $47 million.

Ms. Hounsell stated that the largest budget increases were for pension liability, followed by legal fees generated mostly by the Lehman bankruptcy which resulted in termination of the TSFC Debt Service Reserve investment. Chairman Bialo asked, and Ms. Hounsell confirmed that all legal expenses of TSFC were reimbursed to the Agency by tobacco settlement revenues. She stated that the Preliminary Cash Budgets of HFA and MBBA were prepared by bond resolution or program, and demonstrated that there will be sufficient revenue to cover debt service in 2013. She stated that the Financial Plan of each Agency showed that annual revenues of MBBA and TSFC will cover their operating expenses; however, HFA, AHC and SONYMA will need to dip into funds received in a prior period to cover their operating expenses.

Chairman Bialo asked what the base was regarding the $411,000 projected increase in health insurance expenses. Ms. Hounsell stated that this amount was a 10% increase over last year. Chairman Bialo asked what the pension increase was, and Ms. Hounsell replied that it increased 19% pursuant to the NYS Retirement System. Chairman Bialo asked, and Ms. Hounsell confirmed that increases in health insurance costs were pursuant to the statewide health insurance plan. Chairman Bialo asked for clarification about capital expenses; Ms. Hounsell responded that those included furniture, fixtures, information technology equipment and leasehold improvements.

Chairman Bialo asked what the State assessments were; Ms. Hounsell replied that they included cost recovery of $10 million in allocation of cost-sharing expenses to State public authorities.

Mr. Lebowitz asked for clarification regarding vacancies, and how the numbers compared to last year. Ms. Hounsell stated that although there were sufficient funds to allow the Agencies to fill up to 221 positions, the Agencies' planned to leave 16 positions open from the early retirements, and were budgeting to hire for 205 positions. Ms. Hounsell stated that there were 11 more vacancies this year compared to last year.

Noting the large number of vacancies, Chairman Bergamo asked if the Agencies were able to operate efficiently at the current staffing level. Ms. Hounsell responded that the vice presidents or senior vice presidents of the Agencies should address that answer, and that the various units were looking for individuals to hire, adding that the Agencies were doing a

tremendous amount of business. Ms. Watson asked, and Ms. Hounsell confirmed that the Agencies had authorization to fill the positions. Noting that this issue was raised at previous meetings, Mr. Lebowitz asked when staff would be hired. Acting Chairman Towns responded that for some time now, the Agencies have been actively seeking to fill certain positions. For example, he noted, the Agencies had recently hired a new CFO. He stated that the process was moving forward.

Acting Chairman Towns moved to adopt the resolution; Ms. Brewer seconded the motion, and the following resolution was adopted unanimously:

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 ADOPTING AN ADMINISTRATIVE BUDGET FOR FISCAL YEAR NOVEMBER 1, 2012 TO OCTOBER 31, 2013

AND

FINANCIAL PLANS FOR FISCAL YEARS 2013, 2014, 2015 AND 2016 WITH RESPECT TO TO NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION, AND THE NEW YORK STATE AFFORDABLE HOUSING CORPORATION'S FINANCIAL PLAN FOR FISCAL YEARS 2014, 2015, 2016 AND 2017

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 2013, AND RECOMMENDING APPROVAL THEREOF TO THE MEMBERS AND DIRECTORS OF THE RESPECTIVE AGENCIES.

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The next item on the agenda was an information item concerning the Independent Auditor's Presentation relating to the 2012 Financial Statement Audit Plan. Gary Weinstock, Vice President/Comptroller, introduced three representatives of Ernst & Young LLP: Randy P. Nelson, Executive Director; Louis M. Roberts, Audit Senior Manager; and Amy Wong, Audit Manager, to present the annual audit plan, which was their third for the Agencies. Mr. Nelson stated that their audit plan covered HFA, SONYMA, MBBA and TSFC for the year ended October 31, 2012; and covered AHC for the year ended March 31, 2013.

Next, Mr. Roberts summarized certain information contained in the materials provided in connection with this item, which are incorporated herein by reference. He stated that there were no new accounts established which would cause either a change in audit strategy or a focus on new issues. He stated that internal controls were the foundation of the audit, which included payroll, accounts payable, disbursements, federal grant revenue, the mortgage process and the investment process. He stated that specialists were used to analyze

outstanding debt, fair value of interest rate swaps and effectiveness of hedges. He stated that specialists were also used to assess general controls of the information technology system which the auditors relied upon to generate accurate data for their audit.

Next, Ms. Wong summarized certain information contained in the materials provided in connection with this item, which are incorporated herein by reference. She stated that items reviewed on the Audit Timetable did not find any exceptions as related to the Ernst & Young control procedures.

Mr. Roberts next stated that new standards were recently issued by the Governmental Accounting Standards Board (GASB). He stated that Statement Number 65 concerned items previously recorded as assets and liabilities; and that there were certain items in the past accounting method used for financial statements balance sheets that current GASB standards do not agree with. He stated that Concepts Statement Number 4 introduced and defined the elements "deferred outflows" and "deferred inflows" of resources as a reasonable basis for changing the way certain transactions were accounted for, or otherwise reporting them as revenues or expenses. He stated that, under the new standard, for example, the previous method of amortizing bond issuance cost over the life of the bond must now be written off directly to expense, effective fiscal year 2014, as per the State's wishes. Chairman Bergamo asked how the Agencies would be impacted. Mr. Roberts stated that impact on the Agencies would be mostly on the expense side. Mr. Lebowitz asked how this would affect budget. Mr. Roberts stated that because budget was cash-outflow oriented with the Agencies paying up front, it would impact debt-related items, which have not been budgeted for in the past.

Next, Mr. Roberts stated that GASB Statement Number 66 concerned technical corrections made to amend conflicting guidance of Statements Numbered 10 and 62, and had no impact on the Agencies.

Next, Mr. Roberts stated that GASB Statement Number 67 concerned the financial reporting of a pension plan itself, effective fiscal year 2015; and Statement Number 68 concerned impact on the employer, which would be a significant change. He stated that the Agencies have a cost-sharing plan with the State which informed the Agencies what their contribution was; however, under this new GASBE standard, the entire pension liability will be examined and allocated by the State to all participating statewide entities, which could have an impact on the Agencies' net liability expense, on a cost-sharing basis.

Chairman Bialo asked for clarification of the phrase "unfunded liabilities". Mr. Roberts responded that the State will work with an actuary to do a calculation of each person within the statewide pension plan to determine what was earned, from a pension benefit standpoint, and the difference of what was earned versus what was contributed into the plan, which will be reported as a net liability on the participating entity's accounting books, on a pro-rata basis. Chairman Bialo asked if the Agencies would need to report a large negative amount on their balance sheets. Mr. Roberts responded that it would likely flow through as an opening adjustment to the Agencies' net position, that the Agencies' net position would change, and that net liability must go on the books. Mr. Roberts added that because New York State has a highly-funded pension plan, this unfunded liability should not greatly impact the Agencies, as special-purpose entities, but it must be reported.

Chairman Bialo asked how many retirees the Agencies had; Mr. Weinstock responded that he would provide Chairman Bialo with that figure after today's meetings.

Chairman Bergamo asked if the auditors had received full cooperation from management, which Mr. Roberts confirmed. Chairman Bergamo asked if SONYMA's internal controls were in place and satisfactory; Mr. Roberts confirmed that no major weaknesses were found. Chairman Bergamo asked if any irregularities were found; Mr. Roberts confirmed that none were found. Chairman Bergamo asked if anything unusual was found after testing the information technology system; Mr. Roberts confirmed nothing was found.

Mr. Roberts asked if anyone had questions or wished to report anything to the auditors.

Chairman Bialo thanked the presenters.

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The next item on the agenda was an information item concerning the Financial Statement Update 3rd Quarter Fiscal Year 2012 for HFA, SONYMA, MBBA and TSFC, and the 1st Quarter of Fiscal Year 2013 for AHC. Chairman Bialo stated that information regarding this item was contained in the meeting materials provided which are incorporated herein by reference, and asked if there were any comments or questions. There was no discussion regarding this item.

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The next item on the agenda was an information item concerning the Report of administrative budget expenditures for the nine months ending July 31, 2012 and updated Financial Plans. Chairman Bialo stated that information regarding this item was contained in the meeting materials provided which are incorporated herein by reference, and asked if there were any comments or questions. There was no discussion regarding this item.

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There being no unfinished business, Chairman Towns moved to adjourn; Ms. Brewer seconded the motion, and the meeting was adjourned at 9:45 A.M.

Alejandro J. Valella, Acting Secretary