MINUTES OF THE 22nd MEETING OF THE TOBACCO SETTLEMENT FINANCE CORPORATION AUDIT COMMITTEE HELD ON JANUARY 27, 2011 AT 10:08 A.M. AT ITS OFFICES AT 641 LEXINGTON AVENUE NEW YORK, NEW YORK 10022

MEMBERS AND DESIGNEES

PRESENT:

Judd S. Levy	Chairman
Elaine McCann	Division of the Budget, representing Robert Megna, Member (via video conference)
Andrew A. SanFilippo	Member

ABSENT

Kenneth M. Bialo	Member

Chairman Levy chaired the meeting; Joy F. Willig, the Agencies' Senior Vice President and Counsel, acted as Secretary. The meetings of the Audit Committees 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 Finance Corporation Audit Committee. A record of items considered by the other Agencies' Audit Committees is contained in the minutes of each Committee respectively.

Chairman Levy noted that Elaine McCann was participating in the meeting via video conference from the New York State Division of the Budget conference center at the Capital Building, Room 143, in Albany. A public notice was given of the time and locations of both venues. George Leocata participated in the meeting as a guest via telephone conference. Aida Brewer, Department of Taxation and Finance, representing Thomas H. Mattox, Acting Commissioner, attended the meeting as a guest via video conference. David J. Sweet, a Director of SONYMA attended the meeting as a guest.

The first item on the agenda was the adoption of the minutes of the 21st Tobacco Settlement Financing Corporation ("TSFC") Audit Committee held on December 9, 2010. There being no objections or corrections from the Members, the minutes were deemed approved.

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The next item on the agenda was a resolution approving the Disaster Recover Audit Report. This item was deferred until the next meeting.

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The next item on the agenda was a resolution recommending approval of the Agencies' Financial Statements for Fiscal Year 2009-2010. Ms. Joanne Hounsell, Senior Vice President and Interim Chief Financial Officer, highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. She presented an overview of the results of the annual audit of the New York State Housing Finance Agency ("HFA"), State of New York Mortgage Agency ("SONYMA"), State of New York Municipal Bond Bank Agency ("MBBA") and the Tobacco Settlement Financing Corporation ("TSFC") for financial year November 1, 2009 to October 31, 2010. Ms. Hounsell stated that during the fiscal year, the combined Agencies issued over $2 billion in bonds, with HFA issuances of over $1 billion. Ms. Hounsell stated that outstanding bonds total $17.1 billion, and that the combined mortgage and student loan portfolio exceeds $12.4 billion. Ms. Hounsell added that the fund balance of SONYMA, MBBA and TSFC increased, and that HFA's decreased. Ms. Hounsell stated that a new accounting pronouncement was implemented known as the Governmental Accounting Standards Board, Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments ("GASB No. 53"), which changed the Agencies' derivative exposure, and which was to be elaborated upon in today's presentation by Ernst & Young.

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Ms. Hounsell next introduced Marian Zucker, President, Finance and Development, to discuss an overview of 2010 market challenges, certain federal programs, and strategies used toward the Agencies' mission of providing affordable housing to New Yorkers. Ms. Zucker highlighted information contained in the materials provided to the Members in connection with this item, which materials are incorporated herein by reference. She noted that the bond-flow chart provided to the Members depicted market stability despite last year's European sovereign debt crisis. Ms. Zucker stated that the fourth quarter, although not within the Agencies' fiscal year, brought investor concerns that the Build America Bonds financing option ("BABs"), which had become a significant segment of the municipal market, would not be extended and would increase interest rates on tax-exempt bonds, which caused investors to withdraw from bond funds lest they lose on their investments. She noted that housing issuance was down significantly in 2010.

Chairman Levy asked if there were factors, other than the national shift in home-ownership, which had contributed toward the past eight-year decline in multi-family bonds issuance. Ms. Zucker responded that during the past couple of years, in addition to the down-turn of the economy, state issuers had focused a greater allocation of resources on single-family home owners rather than on tax-exempt multi-family housing developers. Ms. Zucker noted that the New Issue Bond Program ("NIBP") allowed the Agency to lock in its interest rates during all of 2010, and this has been extended through 2011 for 60% of Agency-issued bonds for both our single-family and affordable-family programs. Ms. Zucker added that another influence upon Agencies' activity last year was the home-buyer tax credit of 2009, which originally was intended to benefit first-time home-buyers, but was extended to included repeat borrowers who intended to occupy their homes. She stated that the tax credit extension drove volume and caused single-family home-buyers and lenders to rush into the housing market to beat the BABs deadline.

In response to questions from Mr. SanFilippo, staff reported that there were no issues related to guaranteed investment contracts or other investments involving downgraded insurance companies.

Chairman Levy thanked the staff for a well done presentation of the financial statements report for fiscal year 2010.

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Chairman Levy next introduced David J. Milkosky from Ernst & Young, which was appointed by the Committees last year as the Agencies' new auditors. Mr. Milkosky introduced his colleagues Louis Roberts, Randy Nelson and Kimberly Hancy, who joined him to present a summary report of the results of the Agencies' annual audit for financial year November 1, 2009 to October 31, 2010. He noted that the audit for New York State Affordable Housing Corporation ("AHC") would not be completed until April because of its fiscal year-end in March. Mr. Milkosky highlighted certain information contained in the supplemental materials he provided. He commended the staff for its cooperation in Ernst & Young's first-year audit which entailed a thorough review of the Agencies' accounting systems and methodologies. He noted that Ernst & Young made recommendations in the amortization area for the Agencies to apply greater consistency, across all entities, in how they prepare closing costs amortizations. Mr. Milkosky stated that auditor's tests in the areas of information technology and transactions indicated that Agencies' internal controls were very good.

In response to a question from Chairman Levy, Mr. Milkosky explained that a formal interview of the Audit Committee chairman regarding whistle-blower activities was not a requirement, and that an open dialogue of communication was preferred.

As related to the audit, Mr. Milkosky noted that the financial statements were prepared by the staff rather than the auditors; however, the auditors worked closely with staff to ensure that all financial disclosures were consistent with government requirements and with other agencies of this type.

As related to accounting practices, Mr. Milkosky stated that the auditors' methodology used to calculate the reserves involved review of historical information, trends and whether the current situation seemed reasonable.

In response to questions from Chairman Levy, Mr. Milkosky stated that because the Agencies were not in business to make money, GASB was more flexible toward Agencies' reserves which have been set aside for possible delinquent loans.

Mr. Milkosky next introduced Kimberly Hancy for a discussion of some of the key areas covered during Ernst & Young's audit, particularly on testing the Agencies' internal controls. Ms. Hancy stated that no exceptions were noted in the policies or controls related to revenue regulation, operating expenses and how they were posted to accounts, or in accounts receivable which covers mortgage loans. She also stated that unamortized bonds, costs of issuance, and mortgage acquisition costs were satisfactorily reported.

Mr. Milkosky next introduced Louis Roberts for a discussion of the management letter. Mr. Roberts stated that because no significant deficiencies or material weaknesses were identified during their audit, language in their management letter would be modified to strike notation of "deficiencies in internal control" to state "other matters". He noted that all items in the proposed management letter were to enhance the Agencies' existing processes and controls. As related to the development of a comprehensive policies and procedures manual, he stated that the Agencies' management had agreed that it was prudent to update the documentation of its procedures. Mr. Lebowitz and Mr. SanFilippo clarified that, although the Agencies were not subject to the Sarbanes-Oxley Act requirement to maintain a formal procedures manual, the Agencies were fully compliant with state regulations. As related to accounting methodologies and practices, Mr. Roberts stated that Agencies' management was in agreement with auditor's suggestion that adoption of consistency across all entities would enhance efficiency and cross-training of Agencies' staff.

In response to questions from Mr. Lebowitz and Mr. SanFilippo, Ms. Hounsell confirmed that auditor's management letter, as a public document, would be posted on the Agencies' website. In response to concerns related to the posting of confidential information, Chairman Levy stated the management letter covered technical house-keeping information, and that those who invest in Agency bonds and buy Agency insurance should have access to this important information. Joy F. Willig, Senior Vice President and Counsel, noted on behalf of the staff that collaboration between management and the auditors was part of the process in drafting the management letter. Chairman Levy thanked the Ernst & Young presenters for their thorough review and presentation.

Mr. SanFilippo moved to adopt the resolution; Ms. McCann seconded the motion, and the following resolution was adopted unanimously:

A RESOLUTION OF 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 AUDIT COMMITTEES APPROVING AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2010

Chairman Levy moved to adjourn the meeting for Executive Session to discuss the financial history of a particular corporation, pursuant to Section 105(f) of New York State Public Officers Law; Mr. SanFilippo seconded the motion, and the meeting was adjourned at 12:35 P.M. Executive Session ended at 12:47 P.M., and Chairman Levy advised that no votes had been taken in Executive Session. The committee meeting was called to order at 2:48 P.M.

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The next item on the Agenda was an information item reviewing the Fifth Annual Evaluation by the Audit Committees. Information with respect to this item was provided to the Members in advance of the meeting. This item was deferred until the next meeting.

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There being no unfinished business, Mr. SanFilippo moved to adjourn; Ms. McCann seconded the motion, and the meeting was adjourned at 12:49 P.M.

Secretary