

**MINUTES OF THE 23rd MEETING OF THE
TOBACCO SETTLEMENT FINANCE CORPORATION
AUDIT COMMITTEE
HELD ON APRIL 27, 2011 AT 4:03 P.M.
AT ITS OFFICES AT 641 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022**

MEMBERS AND DESIGNEES

PRESENT:

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

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 Financing Corporation. 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 video conference from the New York State Division of Budget conference center at the Capital Building, Room 143, in Albany. A public notice was given of the time and locations of both venues.

Aida Brewer, Department of Taxation and Finance, representing Thomas H. Mattox, Acting Commissioner; Don Lebowitz, Director of the State of New York Mortgage Agency ("SONYMA"); Karen A. Philips, Director of SONYMA; and David J. Sweet, Director of SONYMA, attended the meeting as guests.

Chairman Levy introduced and welcomed former assemblyman Darryl C. Towns, the new Commissioner of the Division of Housing and Community Renewal ("DHCR"), and President-elect of the Agencies, and noted that the Boards of the Agencies would act on appointment of Mr. Towns as President and CEO at their meetings that evening.

The first item on the agenda was the adoption of the minutes of the 22nd Tobacco Settlement Financing Corporation ("TSFC") Audit Committee held on January 27, 2011. Absent comments or corrections from the Members, the minutes were deemed approved.

The next item on the agenda was a resolution recommending approval of the Disaster Recover Audit Report. Stephen B. Chohey, Vice President of the Internal Audit Group, highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that a review of the Agencies' disaster recovery, pandemic plan and business continuity was made as of November 1, 2010. He stated that the disaster recovery plan refers to the Agencies' ability to restore computer network operations if unexpectedly disrupted, and the business continuity plan prioritizes the Agencies' business objectives and identifies critical operations within every department that are essential for recovery. Mr. Chohey noted that the Agencies' Information Technology Department ("IT") is responsible for the operational functions of the computer system and its applications and had recently executed its first virtual testing of a network environment located at the Albany datacenter, which testing simulated a network shut-down, followed by successful restoration of production systems and business operations.

Chairman Levy asked how long it took to restore systems in the test scenario, and Mr. Chohey responded that network operations were restored in approximately 45 minutes.

Kenneth M. Bialo, asked for clarification of the type of tests performed and whether the Agencies network was actually shut down. Edwin Bonilla, IT Senior Vice President, responded that the Agencies' local computer network created an isolated, simulated computer environment for a 'pretend shutdown', and that the Agencies network data was not impacted, nor was its actual network shut down.

Chairman Levy asked if the computer network system at the Hampton Plaza, Albany, location should have an independent backup power source as suggested by the New York State Department of Banking. Mr. Chohey responded that, from an audit viewpoint, it would be a requirement because the Agencies' current systems do not have backup generation at Hampton Plaza, an unacceptable situation, and that the IT Department should conduct an assessment to determine how long a time period the Agencies' computer system could remain offline.

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

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

The next item on the agenda was a resolution recommending approval of Internal Audit's Work Plan for Fiscal Year 2012. Mr. Chohey highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that since the April 2010 Audit Committee approval of last year's Plan, the Internal Audit group completed 10 internal audits and assisted the Banking Department with its audit. He added that this year's Plan will include 11 internal audits

plus a carry-over from last year for completion of the Tax Credit Assistance Program ("TCAP") audit and the Student Loan audit. Mr. Chohey stated that this year, Internal Audit plans to again assist the Banking Department, perform two HFA audits, two SONYMA audits, three servicer audits and four integrated audits.

In response to a question from Aida Brewer, Mr. Chohey confirmed that the correct amount of hours listed in the Committees' Audit Plan Summary materials allotted for substantive testing in the Housing Portfolio Management Audit was actually 210 hours, not "135".

In response to a question from Chairman Levy, Mr. Chohey confirmed that the Student Loan audit commenced at the end of March 2011, adding that one of the reasons for its delay was the possibility of the bonds being recalled. Mr. Chohey noted that Internal Audit would review how the Student Loan accounts are handled and reconciled, and if any have defaulted. He added that Internal Audit was planning to contact the Higher Education Service Corporation ("HESC"), a state agency in Albany, to review how its internal audit group underwrites student loans, its collection process and how it works with their servicer in order to use its processes as a model for the Agencies.

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

A RESOLUTION 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 AUDIT COMMITTEES REVIEWING AND APPROVING INTERNAL AUDIT'S WORK PLAN FOR FISCAL YEAR 2012

The next item on the Agenda was an information item reviewing the Fifth Annual Evaluation by the Audit Committees. 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 a summary of the results of completed questionnaires concerning the 2010 Audit Committees' self-evaluations, and noted that the combined score of 4.22 out of 5, given by the Members and Directors, reflected an improved score from last year and their general satisfaction with the operations of the Committees. Ms. Hounsell stated that recommended improvements, as listed in the Committee materials, include more in-house training and provision for the Members and Directors to take outside courses. She noted that suggestions made by the Audit Committees were instrumental in refinement of the language in the auditor's management letter. Ms. Hounsell stated that services provided by auditors, Ernst & Young, all of which are approved by the Audit Committees, include the financial audits of the five Agencies and agreed-upon procedures for SONYMA bond issues, and that these services are paid by a fixed fee rather than an hourly fee. She added that the auditors do not provide non-audit or consultant services. Ms. Hounsell stated that Members and Directors of the Committees made no recommendations to revise the Committee Charters.

Mr. SanFilippo moved to adopt the resolution; Chairman Levy 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 CONCERNING SELF-EVALUATION

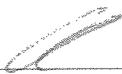
The next item on the agenda was an information item reviewing the **Financial Statement Update for the First Quarter Fiscal 2011**. Joanne Hounsell, next introduced Gary Weinstock, Vice President/Comptroller, and Genevieve D'Agostino, Senior Vice Present/Treasurer, to Darryl C. Towns, the to-be appointed Commissioner/CEO of the Agencies. Ms. Hounsell then presented a summary of updated financial statements, to date, by highlighting certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference.

Mr. Weinstock next presented a summary of first quarter financials and highlighted certain information contained in the Audit Committee materials which are incorporated herein by reference. He stated that during the first quarter, TSFC paid interest on bonds in December and amortized accordingly. Ms. Hounsell stated that TSFC received approximately \$387 million in Tobacco Settlement revenues in April, which, together with \$2.9 million in earnings, will go toward \$302 million in scheduled principal and interest payments, and \$677,000 toward operating expenses, and that the remaining \$87 million may be used for turbo calls.

In response to a request from Mr. Bialo, Ms. Housell stated that for the next Committee meeting, staff would incorporate trends and sales projection figures into the materials provided to the Members.

Chairman Levy noted that the Statements of Revenues listed net assets as \$90 million, and that at the beginning of the period, the net assets amounted to \$129 million, and asked if this represented a genuine decrease in net assets for the comparable period. Mr. Weinstock responded that this was not a true decrease, but rather a timing difference, and that the amounts will be more comparable after the Settlement Payment is received in March.

There being no unfinished business, Chairman Levy moved to adjourn; Mr. SanFilippo seconded the motion, and the meeting was adjourned at 4:53 P.M.


Secretary