

Northern Tobacco Securitization Corporation

a component unit of the State of Alaska

Financial Statements

June 30, 2021

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Independent Auditor's Report

To the Board of Directors
Northern Tobacco Securitization Corporation
Anchorage, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of Northern Tobacco Securitization Corporation (NTSC), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise NTSC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of NTSC, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, NTSC's repayment of long-term debt is dependent on several factors, including the continued financial capability of participating cigarette manufactures to pay tobacco settlement revenues and future cigarette consumption. Our opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Boise, Idaho
October 15, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify significant changes in the financial position of Northern Tobacco Securitization Corporation ("NTSC") during the year ended June 30, 2021. This information should be read in conjunction with the Independent Auditors' Report, financial statements and accompanying notes.

NTSC is a component unit of the State of Alaska ("the State").

OVERVIEW OF THE FINANCIAL STATEMENTS

NTSC's annual financial statements consist of two parts: Management's Discussion and Analysis and basic financial statements. The basic financial statements include government-wide presentation, governmental fund presentation and Notes to Financial Statements. The financial statements for June 30, 2021, are intended to facilitate and enhance understanding of NTSC's financial position and results of operations for the current fiscal year.

The government-wide financial statements of NTSC, which include the *Statement of Net Position* and the *Statement of Activities*, are presented to display information about NTSC as a whole and are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to the accounting used by most private-sector companies. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The *Statement of Net Position* (Exhibit A) answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities. Over time, changes in net position may serve as a useful indicator of whether the financial position of NTSC is improving or deteriorating.

The *Statement of Activities* (Exhibit B) accounts for all of the revenues and expenses. This statement measures the success of NTSC's operations over the past year and can be used to determine whether NTSC has successfully recovered all of its costs through its revenue sources. This statement helps answer the question "Is NTSC as a whole better off or worse off as a result of the year's activities?"

The *Reconciliation of the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities* (Exhibit C) is provided to assist readers in understanding the differences between government-wide and governmental fund financial statements.

The *Notes to Financial Statements* provide additional information that is essential to obtain a full understanding of the data provided in the government-wide financial statements. The Notes to Financial Statements follow Exhibit C.

FINANCIAL HIGHLIGHTS

- Tobacco settlement revenue received by NTSC in fiscal year 2021 was \$17.1 million, compared to \$16.1 million in fiscal year 2020.
- Bond principal in the amount of \$2.5 million was paid in fiscal year 2021.
- Bond interest totaling \$14.4 million was paid in fiscal year 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF NET POSITION
(in thousands)

	2021	2020
Investments	\$ 35,060	\$ 34,986
Interest receivable	1	5
Total assets	<u>35,061</u>	<u>34,991</u>
Bonds, net	310,673	311,121
Bond interest payable	1,171	1,181
Total liabilities	<u>311,844</u>	<u>312,302</u>
Restricted net position	34,857	34,793
Unrestricted net position (deficit)	<u>(311,640)</u>	<u>(312,104)</u>
Total net position (deficit)	<u>\$ (276,783)</u>	<u>\$ (277,311)</u>

There were no significant changes in total assets, total liabilities, or total net position as of June 30, 2021.

CONDENSED STATEMENT OF ACTIVITIES
(in thousands)

	2021	2020
Tobacco settlement revenue	\$ 17,103	\$ 16,052
Investment interest	110	532
Net decrease in fair value of investments	(59)	87
Realized loss on investments	(3)	-
Total revenue	<u>17,151</u>	<u>16,671</u>
Interest expense	16,418	16,336
Insurance and financing	181	33
General and administrative	24	25
Total expenses	<u>16,623</u>	<u>16,394</u>
Excess of revenues over expenses	528	277
Changes in net position	<u>\$ 528</u>	<u>\$ 277</u>

In fiscal year ending June 30, 2021, tobacco revenues received and expenses incurred by NTSC were similar to the prior year. As a result, the excess of revenues over expenses remained relatively unchanged.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FUNDS

NTSC has two funds.

- The debt service fund is restricted solely to debt service activities.
- The general fund is the operating fund of NTSC. It represents all of NTSC's activities not presented in the debt service fund.

DEBT ADMINISTRATION

As of June 30, 2021, NTSC had \$310.7 million in outstanding revenue bonds, net of discount and accreted value, secured solely by future tobacco settlement revenue and investment earnings. Significant debt activity during fiscal year 2021 consisted of debt service payments of \$16.9 million of which \$14.4 million represented interest and \$2.5 million represented principal paydown.

Ratings on NTSC's bonds are subject to change as the companies that rate the bonds analyze numerous factors that may affect NTSC's ability to pay interest on and principal of its outstanding obligations. Therefore, there has been no attempt to list the ratings as of the date of this report. However, current information is available through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access service ("EMMA") at <http://emma.msrb.org>.

Additional information on NTSC's long-term debt can be found in the Notes to Financial Statements.

ECONOMIC FACTORS

Tobacco settlement revenue, the primary revenue source for NTSC, is dependent on future tobacco product sales. If the consumption of tobacco products increases, then NTSC's tobacco settlement revenue will increase; if consumption decreases, revenue will also decrease. If consumption remains consistent, tobacco settlement revenue will remain stable.

CONTACTING NTSC'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of NTSC's finances and to show NTSC's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact NTSC at (907) 330-8396 or finance@ntscak.us.

NORTHERN TOBACCO SECURITIZATION CORPORATION

EXHIBIT A

(A Component Unit of the State of Alaska)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

As of June 30, 2021

(in thousands of dollars)

	General Fund	Debt Service Fund	Governmental Funds Balance Sheet Total	Adjustments*	Statement of Net Position Total
ASSETS					
Investments	\$ 204	\$ 34,856	\$ 35,060	\$ -	\$ 35,060
Interest receivable	-	1	1	-	1
Total Assets	<u>204</u>	<u>34,857</u>	<u>35,061</u>	<u>-</u>	<u>35,061</u>
LIABILITIES					
Bond interest payable	-	-	-	1,171	1,171
Long-term debt:					
Due after one year	-	-	-	297,333	297,333
Unamortized bond discount	-	-	-	(4,555)	(4,555)
Accreted value	-	-	-	17,895	17,895
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>311,844</u>	<u>311,844</u>
FUND BALANCES					
Fund balances:					
Unassigned	204	-	204		
Restricted for debt service	-	34,857	34,857		
Total Fund Balances	<u>204</u>	<u>34,857</u>	<u>35,061</u>		
Total Liabilities and Fund Balances	<u>\$ 204</u>	<u>\$ 34,857</u>			
NET POSITION					
Restricted for debt service					34,857
Unrestricted (deficit)					(311,640)
Total Net Position (deficit)				<u>\$ (311,844)</u>	<u>\$ (276,783)</u>

***Adjustments:**

Amounts reported for governmental activities in the Statement of Net Position are different than the Governmental Funds Balance Sheet totals because:

Total Fund Balances	35,061
Interest payable and long-term debt are not due and payable in the current period and therefore are not reported in the governmental funds.	(298,504)
Governmental funds report bond discounts as other financing uses when incurred. The Statement of Net Position records bond discounts as a contra-liability to long-term debt and amortizes such items to interest expense over the life of the debt.	4,555
Governmental funds report accreted value at the time the bonds are redeemed. The Statement of Net Position amortizes such items as a reduction to expense over the life of the debt .	(17,895)
Net position of governmental activities	<u>\$ (276,783)</u>

See accompanying notes to the financial statements.

NORTHERN TOBACCO SECURITIZATION CORPORATION

EXHIBIT B

(A Component Unit of the State of Alaska)

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES / STATEMENT OF ACTIVITIES

For the Year Ending June 30, 2021

(in thousands of dollars)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>	<u>Adjustments (Exhibit C)</u>	<u>Statement of Activities</u>
GENERAL REVENUES					
Tobacco settlement revenues	\$ -	\$ 17,103	\$ 17,103	\$ -	\$ 17,103
Investment interest	-	110	110	-	110
Net increase (decrease) in fair value of investments	-	(59)	(59)	-	(59)
Realized gain (loss) on investments	-	(3)	(3)	-	(3)
Total revenues	<u>-</u>	<u>17,151</u>	<u>17,151</u>	<u>-</u>	<u>17,151</u>
EXPENDITURES/EXPENSES					
Current:					
Insurance and financing	181	-	181	-	181
General and administrative	24	-	24	-	24
Debt Service:					
Principal	-	2,510	2,510	(2,510)	-
Interest	-	14,366	14,366	2,052	16,418
Total expenditures/expenses	<u>205</u>	<u>16,876</u>	<u>17,081</u>	<u>(458)</u>	<u>16,623</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(205)</u>	<u>275</u>	<u>70</u>	<u>458</u>	<u>528</u>
Transfers - internal activities	<u>211</u>	<u>(211)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	6	64	70	(70)	-
Change in net position	-	-	-	528	528
FUND BALANCES and NET POSITION (DEFICIT)					
Beginning of year	198	34,793	34,991	(312,302)	(277,311)
End of year	<u>\$ 204</u>	<u>\$ 34,857</u>	<u>\$ 35,061</u>	<u>\$ (311,844)</u>	<u>\$ (276,783)</u>

See accompanying notes to the financial statements.

NORTHERN TOBACCO SECURITIZATION CORPORATION

EXHIBIT C

(A Component Unit of the State of Alaska)

RECONCILIATION OF THE STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the Year Ending June 30, 2021

(in thousands of dollars)

Amounts reported for governmental activities in the Statement of Activities are different than the Total Governmental Funds because:

Net change in fund balances - Total Governmental Funds \$ 70

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 2,510

Adjustments to Debt Service-Interest:

Governmental funds report accreted value at the time the bonds are redeemed. The Statement of Net Position amortizes the accreted value to interest expense over the life of the debt. (1,820)

Governmental funds report bond discount as a financing use when incurred. The Statement of Activities amortizes the bond discount to interest expense over the life of the debt. (242)

Bond interest is reported as an expenditure in the governmental funds when paid. Interest expense is reported in the Statement of Activities when incurred. 10

Change in net position of government activities \$ 528

See accompanying notes to the financial statements.

Notes to Financial Statements

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Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2021

NOTE A: THE NORTHERN TOBACCO SECURITIZATION CORPORATION

The Northern Tobacco Securitization Corporation (“NTSC”) is a not-for-profit corporation. It was incorporated on September 29, 2000, under the Alaska Nonprofit Corporation Act and provisions of the Alaska Statutes creating the Alaska Housing Finance Corporation, as amended. NTSC was formed as an affiliate of Alaska Housing Finance Corporation (“AHFC”) pursuant to House Bill No. 281 of the Alaska Legislature. NTSC is legally independent and separate from AHFC, and there is no financial accountability between NTSC and AHFC.

NTSC is a component unit of the State of Alaska (“the State”) and is presented as a component of the special revenue and debt service funds in the State’s financial statements. NTSC is a government instrumentality of the State but has legal existence independent of and separate from the State. The Board of Directors of NTSC is comprised of the Commissioners of the Alaska Departments of Revenue, Health & Social Services, and Commerce, Community & Economic Development, or their designees, and two independent members of the public recommended by the Governor.

The purpose of NTSC is to purchase from the State portions of its future right, title and interest in the Tobacco Settlement Revenues (“TSRs”) under the Master Settlement Agreement and the Consent Decree and Final Judgment (“MSA”). The MSA resolved tobacco-related litigation between the settling states and the Participating Manufacturers (“PMs”), released the PMs from past and present tobacco-related claims of the settling states, and provides for a continuing release of future tobacco-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things.

In October 2000, pursuant to a Purchase and Sale Agreement with the State, the State sold to NTSC 40% of its future right, title and interest in the TSRs. Specifically, these rights include a 40% share of TSRs received by the State starting January 10, 2002, and in perpetuity under the MSA. When NTSC’s obligations under the bonds have been fulfilled, the TSRs revert back to the State under a residual certificate. Consideration paid by NTSC to the State for TSRs consisted of a cash amount sent to the State’s custodial trust accounts and a residual certificate assigned to the State.

In August 2001, pursuant to a Purchase and Sale Agreement with the State, the State sold to NTSC an additional 40% of its future right, title and interest in the TSRs. Specifically these rights include a 40% share of TSRs received by the State starting January 10, 2002, and in perpetuity under the MSA. This 40% share is above and beyond the 40% share originally purchased from the State by NTSC in October 2000. When NTSC’s obligations under the bonds have been fulfilled, the TSRs revert back to the State under a residual certificate. Consideration paid by NTSC to the State for TSRs consisted of a cash amount sent to the State’s custodial trust accounts and a residual certificate assigned to the State.

In August 2006, pursuant to a Purchase and Sale Agreement with the State, the State extended NTSC’s right, title and interest in the previously purchased TSRs until such time as NTSC’s obligations under the 2006 bonds have been fulfilled, after which the TSRs revert back to the State under residual certificates.

The bonds of NTSC are asset-backed instruments secured solely by the TSRs, and NTSC’s right to receive TSRs is expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, some of which are:

- the financial capability of the participating cigarette manufacturers to pay TSRs,
- future cigarette consumption which impacts the TSR payment, and
- future legal and legislative challenges against the tobacco manufacturers and the master settlement agreement providing for the TSRs.

Changes in these factors could affect the amount of funds available to pay scheduled debt service requirements.

Notes to Financial Statements

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

NTSC's annual financial statements include a Management's Discussion and Analysis ("MD&A") and basic financial statements. The basic financial statements include a Governmental Funds Balance Sheet / Statement of Net Position, a Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances / Statement of Activities, a Reconciliation of the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities, and Notes to Financial Statements. The financial statements are intended to facilitate and enhance understanding of NTSC's financial position and results of operations for the current fiscal year.

Government-wide and Governmental Fund Financial Statements

The Statement of Net Position and the Statement of Activities report information on all of the activities of NTSC. The effect of interfund activity has been removed from these statements. The Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances are provided for governmental funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, NTSC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The General Fund is the operating fund. It accounts for all financial resources not required to be accounted for in the Debt Service Fund. The Debt Service Fund accounts for the financial resources accumulated for payments of principal and interest of NTSC's long-term debt.

NOTE C: ASSETS, LIABILITIES AND FUND EQUITY

Assets

The assets reported are investments stated at fair value based on quoted market prices. Because the bonds were issued to purchase a future revenue stream, no other assets are reported, resulting in a negative fund balance.

Long-Term Debt

NTSC reports long-term debt at face value, net of discounts. Bond discounts are capitalized and amortized over the life of the related debt in the entity-wide financial statements. The governmental fund financial statements recognize bond discounts, in their entirety, during the period incurred. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Gains and losses associated with the extinguishment of long-term debt are recognized in the current period for both the entity-wide and governmental financial statements. In the entity-wide statements, such gains and losses arise from the difference between the repurchase price and the par value of the bonds, along with any forfeited unamortized bond discount amounts. In the governmental fund statements, such gains and losses arise solely due to the difference between the repurchase price and the par value of the bonds, because bond discounts are expensed in the current period rather than capitalized and amortized over the life of the related debt. For fiscal year 2021, no such gains or losses are reported in the financial statements.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest

Notes to Financial Statements

expenditures are recognized when paid in the individual governmental fund financial statements.

Fund Balances and Net Position

The General Fund balance is unassigned, meaning it is the total of net resources of the General Fund in excess of nonspendable, restricted or committed funds balance. Its financial resources are used to pay NTSC's operating expenditures. At the government-wide level the Net Position balance has an unrestricted deficit balance. There is no formal policy for the order in which the Corporation spends restricted, committed, and unassigned funds.

The Debt Service Fund balance is restricted. All its financial resources are restricted for debt service payments. At the government-wide level the Net Position balance is also restricted due to bond indenture requirements.

NOTE D: INVESTMENTS

Deposit and Investment Policies

Investments are made under the terms of the governing bond indenture. The following types of investments are considered eligible:

- Direct obligations of, or obligations guaranteed as to timely payment of principal and interest by, FHLMC, FNMA or the Federal Farm Credit System;
- Demand and time deposits in, certificates of deposit of, and bankers' acceptances issued by, any bank, trust company, savings and loan, or savings bank provided such instruments have been rated at least "A-1+" by S&P, "P-1" by Moody's and "F1" by Fitch (if rated by Fitch);
- General obligations of, or obligations guaranteed by, any state of the United States or the District of Columbia receiving one of the two highest long-term unsecured debt rating categories available for such securities from S&P, Moody's and Fitch (if rated by Fitch);
- Commercial or finance company paper rated "A-1+" by S&P, "P-1" by Moody's and "F1" by Fitch (if rated by Fitch);
- Repurchase obligations rated in one of the two highest long-term rating categories by S&P, Moody's and Fitch (if rated by Fitch) or collateralized at a minimum level of 102%;
- Interest-bearing or discount securities issued by any corporation incorporated under the laws of the United States or any state thereof rated "A-1+" by S&P, "P-1" by Moody's and "F1" by Fitch (if rated by Fitch);
- Taxable money market funds rated in one of the two highest categories by Moody's or Fitch (if rated by Fitch), or at least "AAm" or "Aam-G" by S&P;
- Investment agreements or guaranteed investment contracts rated in one of the two highest long-term rating categories by S&P, Moody's or Fitch (if rated by Fitch) or collateralized at a minimum level of 102%;
- Other obligations, securities, agreements or contracts which are non-callable and acceptable to each rating agency.

Investment Valuation

NTSC categorizes its fair value measurements within the fair value hierarchy established by Generally Accepted Accounting Principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NTSC measures its investments in money market funds of \$35,060,185 using quoted market prices (Level 1 inputs).

Notes to Financial Statements

Credit Risk

Credit risk is the risk of loss due to the failure of the security or backer. Per policy, NTSC mitigates its credit risk by limiting investments to those permitted under the terms of the governing bond indenture, diversifying the investment portfolio, and pre-qualifying firms with which NTSC administers its investment activities.

The credit quality ratings of NTSC's investments as of June 30, 2021, as described by nationally recognized statistical rating organizations, are shown below (in thousands).

Investment	Moody's	Fitch	Fair Value
Money market funds	Aaa-mf	AAAmf	<u>\$ 35,060,185</u>
Total investments			<u>\$ 35,060,185</u>

Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of NTSC's investment in a single issuer. Concentration limits are not established under the terms of the governing bond indenture and governing agreements for trust investments. NTSC has not established a formal concentration risk policy for its investments.

Investment Holdings Greater than Five Percent of Total Portfolio

The following investment holdings, summarized by issuer, are trusted investments which have no established concentration limits. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds are excluded from this summary. As of June 30, 2021, NTSC had investment balances greater than 5 percent of its total investments with the following issuer (in thousands)

Issuer	Investment Fair Value	Percentage of Portfolio
Morgan Stanley	35,060,185	100.00%

Custodial Credit Risk

For investments, custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, NTSC will not be able to recover the value of the investment. NTSC has not established a formal custodial credit risk policy for its investments.

Interest Rate Risk

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. Per its policy, NTSC mitigates interest rate risk by structuring investment maturities to meet cash requirements as outlined in the governing bond indenture and contractual agreements.

Modified Duration

Modified duration estimates the sensitivity of an investment to interest rate changes. The following table shows the modified duration of NTSC's investments (in thousands) as of June 30, 2021:

	Investment Fair Value	Modified Duration
Money market funds	<u>\$ 35,060,185</u>	0.000
Total Investment	<u><u>\$ 35,060,185</u></u>	
 Portfolio modified duration		<u><u>0.000</u></u>

Notes to Financial Statements

Investment Term

The investment term of all debt security investments by contractual maturity is one year or less. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE E: LONG-TERM DEBT

On October 13, 2000, NTSC issued \$116,050,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2000, to purchase the initial 40% portion of TSRs from the State. On August 2, 2001, NTSC issued an additional \$126,790,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2001, to purchase an additional 40% portion of TSRs from the State.

On August 17, 2006, NTSC issued \$411,988,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2006A, B, and C. These bonds were issued to fully defease the Series 2000 and Series 2001 bonds. Pursuant to the terms of the bond indenture, proceeds from the sale in the amount of \$170,280,000 was used to fund additional capital projects as appropriated by the Alaska State Legislature. The Series 2006 bonds are secured by and payable solely from the TSRs and investment earnings pledged under the indenture and amounts held in accordance with the indenture. The Series 2006A bonds bear interest at a fixed annual rate, between 4.625% and 5.00%, payable semi-annually until the principal is redeemed. These bonds have scheduled sinking fund maturities of June 1, 2046. The Series 2006B and 2006C bonds accrete interest at 6.125% and 6.375% respectively, compounded semi-annually, to become part of the accreted value until the principal is redeemed.

The term bonds in all Series contain turbo redemption features which require that all TSR collections in excess of operating expenditures and scheduled debt service be applied to the redemption of the term bonds. The turbo redemptions are not scheduled amortization payments and are to be made only from surplus collections, if any. Failure to make a turbo principal payment will not constitute an event of default under the indenture.

Debt Service Requirements

Debt service requirements represent the minimum amount of sinking fund and term maturity principal and interest that NTSC must pay as of the specific distribution dates. A failure to make an interest payment or a term maturity principal payment (June 1 of 2023, 2032, and 2046) constitutes an event of default under the indenture. A failure to make a sinking fund payment does not constitute an event of default under the indenture. Debt service requirements, through 2026 and in five year increments thereafter to maturity, are shown below (in thousands):

Year Ended June 30	Series 2006 Bonds		
	Principal	Interest	Total
2022	\$ -	\$ 14,251	\$ 14,251
2023	2,855	14,251	17,106
2024	5,930	14,119	20,049
2025	6,480	13,822	20,302
2026	6,590	13,498	20,088
2027-2031	41,160	61,983	103,143
2032-2036	54,255	50,367	104,622
2037-2041	71,225	35,323	106,548
2042-2046	108,838	15,071	123,909
	\$ 297,333	\$ 232,685	\$ 530,018

Notes to Financial Statements

The activity for long-term debt for the year ended June 30, 2021, is summarized in the following schedule (in thousands):

TOTAL ACTIVITY	June 30, 2020	Additions	Reductions	June 30, 2021	Due Within One Year
Series 2006 bonds payable	\$ 299,843	\$ -	\$ (2,510)	\$ 297,333	\$ -
Plus: Accreted value	16,076	1,819	-	17,895	-
Less: Discount	(4,798)	-	243	(4,555)	-
Total long term debt	\$ 311,121	\$ 1,819	\$ (2,267)	\$ 310,673	\$ -

At June 30, 2021, NTSC maintained a debt service reserve account for the Series 2006 bonds of \$27,620,000. The amount required under the governing bond indenture is \$27,618,000.

NOTE F: YIELD RESTRICTION AND ARBITRAGE REBATE

Most of the investments made under NTSC's tax-exempt bond program are subject to rebate provisions or restricted as to yields. The rebate provisions require that a calculation be performed every five years and upon full retirement of the bonds to determine the amount, if any, of excess yield earned and owed to the Internal Revenue Service. There were no excess earnings recorded or paid for the year ended June 30, 2021.

NOTE G: CONTINGENCIES

Tobacco Litigation Risk

The amount of revenue recognized by NTSC could be adversely impacted by certain third party litigation involving tobacco companies and others.

NOTE H: RELATED PARTY TRANSACTIONS

NTSC entered into a Memorandum of Agreement with AHFC that retains AHFC as Administrator with respect to the preparation of all reports and other instruments and documents that NTSC is required to prepare, execute, file or deliver pursuant to the bond indenture and related agreements for a monthly fee. NTSC also entered into a Sub-Lease Agreement with AHFC for office space, overhead and operating services from AHFC for a monthly fee. The cost to NTSC for these services provided by AHFC for the year ended June, 30, 2021, was approximately \$9,000. This amount was included as a portion of General and Administrative Expenditures/Expenses.

NOTE I: SUBSEQUENT EVENT

On July 1, 2021, the Corporation issued \$282,480,483 of its Tobacco Settlement Asset-Backed Bonds, 2021 Series A, B and C. Proceeds of the sale were used to fully refund the Corporation's outstanding Tobacco Settlement Asset-Backed Bonds, Series 2006. Pursuant to the terms of the 2021 Bond Indenture, proceeds from the sale in the amount of \$18,985,000 will be used to fund additional capital projects as appropriated by the Alaska State Legislature.