



Northern Tobacco Securitization Corporation

**NORTHERN TOBACCO SECURITIZATION CORPORATION
ANNUAL MEETING OF THE MEMBERSHIP**

**JANUARY 29, 2020 – 9:30 A.M.
ANCHORAGE/JUNEAU/FAIRBANKS**

AGENDA

- I. ROLL CALL
- II. APPROVAL OF AGENDA
- III. MINUTES: NOVEMBER 28, 2018
- IV. PUBLIC COMMENTS
- V. NEW BUSINESS
 - A. ELECTION OF BOARD MEMBERS, IF ANY
 - B. DELIVERY OF FISCAL YEAR 2019 ANNUAL REPORT
 - C. OTHER MATTERS TO PROPERLY COME BEFORE THE MEMBERSHIP
- VI. ADJOURNMENT

The Chair may announce changes in the order of business during the meeting.



**ANNUAL MEETING OF THE MEMBERSHIP OF THE
NORTHERN TOBACCO SECURITIZATION CORPORATION
November 28, 2018**

The 2018 annual meeting of the membership of the Northern Tobacco Securitization Corporation ("NTSC") was held at the Alaska Housing Finance Corporation ("AHFC"), 1st Floor, 4300 Boniface Parkway, Anchorage, Alaska, on November 28, 2018, commencing at approximately 9:30 a.m.

The membership of NTSC consists of AHFC as the sole member. The board of directors of AHFC, acting on AHFC's behalf, participated in the NTSC membership annual meeting. Those members of the AHFC board present at the meeting (or attending via teleconference) were as follows:

BRENT LEVALLEY Via Teleconference	CHAIR Member of the Board
ALAN WILSON Anchorage	Member of the Board
OLEN HARRIS Anchorage	Member of the Board
HAVEN HARRIS Anchorage	Member of the Board
MIKE BARNHILL Via Teleconference	Designee for Commissioner Department of Revenue Member of the Board
MONIQUE MARTIN Via Teleconference	Designee for Commissioner Department of Health & Social Services Member of the Board
MIKE NAVARRE Via Teleconference	Commissioner Department of Commerce, Community, & Economic Development Member of the Board



In addition, various AHFC personnel were present, including Bryan Butcher, CEO/Executive Director, and Mark Romick, Deputy Executive Director.

I. **ROLL CALL.** A quorum was declared present and the meeting was duly and properly convened for the transaction of business. CHAIR LEVALLEY turned the meeting over to VICE CHAIR ALAN WILSON in Anchorage.

II. **APPROVAL OF AGENDA.** VICE CHAIR WILSON proposed the agenda as presented. Seeing and hearing no objections, the agenda was approved.

III. **MINUTES OF THE FEBRUARY 28, 2018 ANNUAL MEETING.** VICE CHAIR WILSON asked for revisions or acceptance of the minutes. BRENT LEVALLEY made a motion for approval of the minutes as presented. HAVEN HARRIS seconded the motion. Seeing and hearing no objection, the minutes were approved as presented.

IV. **PUBLIC COMMENTS.** There were no public comments.

V. **NEW BUSINESS.**

A. **ELECTION OF NTSC BOARD MEMBERS.** VICE CHAIR WILSON introduced the item into record. No new membership elections were required at this time.

B. **DELIVERY OF FISCAL YEAR 2018 ANNUAL REPORT.** VICE CHAIR WILSON introduced the item into record and GERARD DETA presented. Mr. Deta gave an overview of the Annual Financial Report to the Membership. No Membership action was requested or required.

VI. **OTHER MATTERS.** No other matters were brought before the membership.

VII. **ADJOURNMENT.** Hearing no further matters, VICE CHAIR WILSON adjourned the meeting at 9:34 a.m.

ATTESTED:

BRENT LEVALLEY - Chair

BRYAN BUTCHER
CEO/Executive Director



Northern Tobacco Securitization Corporation

MEMORANDUM

DATE: January 29, 2020
TO: NTSC Membership
FROM: Staff
RE: Election of Board Members

Issue:

Under Article III, Section 3(a), the By-Laws of the Corporation provide for an election of directors at the first annual meeting and at each annual meeting thereafter. Persons shall be elected to open positions on the Board of Directors to hold office until each successor is elected, qualified, and accepts office, subject to the terms of Article V of the Corporation's Articles of Incorporation. The term for a director on the Board of Directors shall be three years.

Recommendation and requested action:

In accordance with the By-Laws and Articles of Incorporation, and with both Independent Director positions currently vacant, an election of directors is required at this time.



MEMORANDUM

DATE: January 29, 2020
TO: NTSC Membership
FROM: Staff
RE: Delivery of Annual Report

Issue:

Under Article III, Section 11(b), the By-Laws of the Corporation require delivery of the Corporation's audited financial statements at each annual meeting of the Membership. Such report shall be entered into the minutes of, and filed with the records of, each annual meeting.

Recommendation and requested action:

In accordance with the By-Laws, the Membership is hereby notified of the delivery of the above-listed report. No further action is required of the Membership at this time.

Northern Tobacco Securitization Corporation

a component unit of the State of Alaska

Financial Statements

June 30, 2019

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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), a component unit of the State of Alaska, as of and for the year ended June 30, 2019, 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 of 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 the 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, 2019, 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 manufacturers to pay tobacco settlement revenues and future cigarette consumption. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 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.

BDO USA, LLP

Anchorage, Alaska
October 8, 2019

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, 2019. 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, 2019, 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.

CONDENSED STATEMENT OF NET POSITION

(in thousands)

	2019	2018
Investments	\$ 35,165	\$ 35,275
Total assets	35,235	35,275
Bonds, net	311,633	311,842
Total liabilities	312,823	313,079
Restricted net position	35,043	35,089
Unrestricted net position (deficit)	(312,631)	(312,893)
Total net position (deficit)	\$ (277,588)	\$ (277,804)

There were no significant changes in total assets for the year ended June 30, 2019.

There were no significant changes in total liabilities for the year ended June 30, 2019.

The total net position deficit decreased due to the changes in the unrestricted net position. The change in the unrestricted net position was primarily due to an excess of revenues over expenses during the year ended June 30, 2019. There were no significant changes in restricted net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF ACTIVITIES

(in thousands)

	2019	2018
Tobacco settlement revenue	\$ 15,816	\$ 40,849
Total revenue	16,625	41,458
Interest expense	16,338	17,643
Total expenses	16,409	17,727
Excess of revenues over expenses	216	23,731
Changes in net position	\$ 216	\$ 23,731

In fiscal year ending June 30, 2019, tobacco revenues received by NTSC were lower than the prior year, whereas expenses were very similar to fiscal year 2018. As a result, the excess of revenues over expenses decreased by \$23.5 million.

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 another fund.

DEBT ADMINISTRATION

As of June 30, 2019, NTSC had \$311.6 million of revenue bonds, net of discount and accreted value, secured solely by future tobacco settlement revenue and investment earnings. Significant debt activity during fiscal year 2019 consisted of debt service payments of \$16.6 million of which \$14.6 million represented interest and \$2.0 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

June 30, 2019

(in thousands of dollars)

	General Fund	Debt Service Fund	Governmental Funds Balance Sheet Total	Adjustments*	Statement of Net Position Total
ASSETS					
Investments	\$ 192	\$ 34,973	\$ 35,165	\$ -	\$ 35,165
Interest receivable	-	\$ 70	70	-	70
Total Assets	<u>192</u>	<u>35,043</u>	<u>35,235</u>	<u>-</u>	<u>35,235</u>
LIABILITIES					
Bond interest payable	-	-	-	1,190	1,190
Intergovernmental payable	-	-	-	-	-
Long-term debt:					
Due within one year	-	-	-	-	-
Due after one year	-	-	-	302,233	302,233
Unamortized bond discount	-	-	-	(5,048)	(5,048)
Accreted value	-	-	-	14,448	14,448
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,823</u>	<u>312,823</u>
FUND BALANCES					
Fund balances:					
Unassigned	192	-	192		
Restricted for debt service	-	35,043	35,043		
Total Fund Balances	<u>192</u>	<u>35,043</u>	<u>35,235</u>		
Total Liabilities and Fund Balances	<u>\$ 192</u>	<u>\$ 35,043</u>			

NET POSITION

Restricted for debt service	35,043
Unrestricted (deficit)	(312,631)
Total Net Position (deficit)	<u>\$ (312,823)</u> / <u>\$ (277,588)</u>

***Adjustments:**

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

Interest payable and long-term debt are not due and payable in the current period and therefore are not reported in the governmental funds. (303,423)

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. 5,048

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. (14,448)

Net position of governmental activities \$ (277,588)

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 Ended June 30, 2019

(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	\$ -	15,816	\$ 15,816	\$ -	\$ 15,816
Investment interest	-	891	891	-	891
Net increase (decrease) in fair value of investments	-	(82)	(82)	-	(82)
Total revenues	<u>-</u>	<u>16,625</u>	<u>16,625</u>	<u>-</u>	<u>16,625</u>
EXPENDITURES/EXPENSES					
Current:					
Insurance and financing	45	-	45	-	45
General and administrative	26	-	26	-	26
Debt Service:					
Principal	-	2,035	2,035	(2,035)	-
Interest	-	14,559	14,559	1,779	16,338
Total expenditures/expenses	<u>71</u>	<u>16,594</u>	<u>16,665</u>	<u>(256)</u>	<u>16,409</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(71)</u>	<u>31</u>	<u>(40)</u>	<u>256</u>	<u>216</u>
Transfers - internal activities	<u>77</u>	<u>(77)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	6	(46)	(40)	40	-
Change in net position	-	-	-	216	216
FUND BALANCES and NET POSITION (DEFICIT)					
Beginning of year	186	35,089	35,275	(313,079)	(277,804)
End of year	<u>\$ 192</u>	<u>\$ 35,043</u>	<u>\$ 35,235</u>	<u>\$ (312,823)</u>	<u>\$ (277,588)</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 Ended June 30, 2019

(in thousands of dollars)

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

Net change in fund balances - total governmental funds	\$	(40)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		2,035
<i>Adjustments to Debt Service-Interest:</i>		
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.		(1,572)
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.		(255)
Bond interest is reported as an expenditure in the governmental funds when paid. Interest expense is reported in the Statement of Activities when incurred.		48
Change in net position of government activities	\$	<u>216</u>

See accompanying notes to the financial statements.

NOTE DISCLOSURES INDEX

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Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2019

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 a subsidiary 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. As a subsidiary of AHFC, 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") section 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. For the most part, 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

Investments

All investments are stated at fair value based on quoted market prices.

Intergovernmental Receivable and Intergovernmental Payable

The outstanding balance is receivable from or payable to AHFC, and is the net result of payments made by AHFC to vendors on behalf of NTSC and the periodic reimbursements and prepayments to AHFC from NTSC for those vendor expenses.

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.

Notes to Financial Statements

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.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when paid in the individual governmental fund financial statements.

Fund Balances and Net Position

The General Fund balance is unassigned. 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.

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 and Fitch (if rated by Fitch), and 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 and 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 \$35,165,000 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. 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, 2019, as described by nationally recognized statistical rating organizations, are shown below (in thousands).

Investment	Moody's	S & P	Fair Value
Money market funds	Aaa	AAAm	\$ 35,165
Total Investments			\$ 35,165

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, 2019, 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
Goldman Sachs	\$ 35,165	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. 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, 2019:

Notes to Financial Statements

	Investment Fair Value	Modified Duration
Money market funds	\$ 35,165	0.000
Total Investment	\$ 35,165	
Portfolio modified duration		0.000

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 will be 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 2024 and in five year increments thereafter to maturity, are shown below (in thousands):

Notes to Financial Statements

Year Ended June 30	Principal		Interest		Total
2020	\$	-	\$	14,477	\$ 14,477
2021		-		14,477	14,477
2022		1,710		14,477	16,187
2023		6,045		14,398	20,443
2024		5,930		14,119	20,049
2025-2029		36,190		65,719	101,909
2030-2034		49,280		55,410	104,690
2035-2039		62,985		41,822	104,807
2040-2044		85,900		23,936	109,836
2045-2049		54,193		128,395	182,588
	\$	302,233	\$	387,230	\$ 689,463

The activity for long-term debt for the year ended June 30, 2019, is summarized in the following schedule

(in thousands):

TOTAL ACTIVITY	June 30,				June 30, 2019		Due Within
	2018	Additions	Reductions				One Year
Series 2006 bonds payable	\$ 304,268	\$ -	\$ (2,035)	\$	302,233	\$	-
Plus: Accreted value	12,876	1,572	-		14,448		-
Less: Discount	(5,302)	-	255		(5,048)		-
total long term debt	\$ 311,842	\$ 1,572	\$ (1,780)	\$	311,633	\$	-

At June 30, 2019, NTSC maintained a debt service reserve account for the Series 2006 bonds of \$27,618,000 as required under the governing bond indenture.

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, 2019.

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, 2019, was approximately \$9,000. This amount was included as a portion of General and Administrative Expenditures/Expenses.

Northern Tobacco Securitization Corporation
(A Component Unit of the State of Alaska)

AUDIT WRAP UP

Year Ended June 30, 2019



The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Governing Board and Audit Committee) and, if appropriate, management of the Government and is not intended and should not be used by anyone other than these specified parties.

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October 8, 2019

Board of Directors
Northern Tobacco Securitization Corporation

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On May 29, 2019 we presented an overview of our plan for the audit of the financial statements of Northern Tobacco Securitization Corporation (the Corporation) as of and for the year ended June 30, 2019, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Corporation's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the Corporation and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP

Discussion Outline

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Status of Our Audit

We have substantially completed our audit of the financial statements as of and for the year ended June 30, 2019. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements whether due to error or fraud.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- ▶ We have issued an unmodified opinion on the financial statements and released our report on October 8, 2019.
- ▶ Our responsibility for other information in documents containing the Corporation's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Corporation and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Corporation personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES AND SIGNIFICANT UNUSUAL TRANSACTIONS

The following summarizes the more significant required communications related to our audit concerning the Corporation's accounting practices, policies, estimates and significant unusual transactions:

The Corporation's significant accounting practices and policies are those included in Note B to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note B to the financial statements.

- The Corporation implemented GASB 88 "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*". This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant terminations events with finance-related consequences, and significant subjective acceleration clauses.
- There were no other changes in significant accounting policies and practices during FY19.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Corporation's did not make any significant accounting estimates for the fiscal year 2019.

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2019.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

QUALITY OF THE CORPORATION'S FINANCIAL REPORTING

A discussion was held regarding the quality of the Corporation's financial reporting, which included the following:

- ▶ Qualitative aspects of significant accounting policies and practices
- ▶ Our conclusions regarding significant accounting estimates
- ▶ Significant unusual transactions
- ▶ Financial statement presentation
- ▶ New accounting pronouncements
- ▶ Alternative accounting treatments

Internal Control Over Financial Reporting

In planning and performing our audit of the Corporation's financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing and in a timely manner, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Corporation's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to the Corporation:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Corporation's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Extent to which our plan to use the work of others and the basis for our determination that we can serve as the principal auditor has changed since our planning communication	Since our Audit Planning communications, there have been no significant changes in our plans to use the work of the Corporation's internal auditors in the audit of financial statements.
Consultations with other accountants	We are not aware of any consultations about significant accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent accountants on the application of generally accepted accounting principles.
Our evaluation of the Corporation's relationships and transactions with related parties and their impact on the financial statements	We have evaluated the Corporation's process to identify, authorize and approve, account for, and disclose its relationships and transactions with related parties and noted no significant issues.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Corporation's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other matters significant to the oversight of the Corporation's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Corporation's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you dated May 29, 2019 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Corporation with respect to independence as agreed to by the Corporation. Please refer to that letter for further information.