Northern Tobacco Securitization Corporation

a component unit of the State of Alaska

Financial Statements

With Independent Auditors' Report

June 30, 2014

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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, 2014, 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, 2014, 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 a Matter

As discussed in Note I to the financial statements for fiscal year 2014, NTSC adopted the provisions of Governmental Accounting Standards Board (GASB) Statement number 65, *Items Previously Reported as Assets and Liabilities.* Adoption of this statement resulted in the restatement of net position as of June 30, 2013 in the amount of $2,650,000. Our opinion is not modified with respect to this matter.

Other Matters

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.

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.

BDO USA, LLP

September 15, 2014
Anchorage, Alaska

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, 2014. 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, 2014, 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)

	2014	2013
Investments	$ 36,140	$ 36,318
Total assets	36,140	38,968
Bonds, net	353,680	360,774
Total liabilities	355,018	362,144
Restricted net position	35,974	36,156
Unrestricted net position (deficit)	(354,852)	(359,332)
Total net position (deficit)	(318,878)	(323,176)

Total assets decreased by $2.8 million primarily due to the write off of the unamortized bond issuance cost balance; refer to Footnote I: Cumulative Effect of Accounting Change for further details

Total liabilities decreased $7.1 million primarily as a result of principal paydowns on bonds for the year ended June 30, 2014.

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, 2014, and the cumulative effect of accounting change. There were no significant changes in restricted net position.

CONDENSED STATEMENT OF ACTIVITIES

(in thousands)

	2014	2013
Tobacco settlement revenue	$ 25,808	$ 23,990
Total revenue	25,856	24,094
Interest expense	18,699	18,955
Total expenses	18,908	19,308
Excess of revenues over expenses	6,948	4,786
Changes in net position	6,948	4,786
Cumulative effect of accounting change	(2,650)	-

Total revenue increased by $1.7 million for the year ended June 30, 2014, due primarily to an increase in tobacco settlement revenue.

There were no significant changes in total expenses for the year ended June 30, 2014.

The cumulative effect of accounting change of $2.6 million was incurred from implementing a new accounting pronouncement which involved the removal of the asset unamortized bond issuance costs that had been incurred in previous years; refer to Footnote I: Cumulative Effect of Accounting Change for further details.

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, 2014, NTSC had $353.7 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 2014 consisted of debt service payments of $25.9 million of which $17.2 million represented interest and $8.7 million represented principal paydowns.

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, the 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) 330-8343 or gdeta@ahfc.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, 2014

(in thousands of dollars)

	General Fund	Debt Service Fund	Governmental Funds Balance Sheet Total	Adjustments*	Statement of Net Position Total
ASSETS					
Investments	$ 166	$ 35,974	$ 36,140	$ -	$ 36,140
Interest receivable	-	-	-	-	-
Total Assets	166	35,974	36,140	-	36,140
LIABILITIES					
Bond interest payable	-	-	-	1,338	1,338
Intergovernmental payable	-	-	-	-	-
Long-term debt:					
Due within one year	-	-	-	5,325	5,325
Due after one year	-	-	-	347,883	347,883
Unamortized bond discount	-	-	-	(6,994)	(6,994)
Accreted value	-	-	-	7,466	7,466
Total Liabilities	-	-	-	355,018	355,018
FUND BALANCES					
Fund balances:					
Unassigned	166	-	166		
Restricted for debt service	-	35,974	35,974		
Total Fund Balances	166	35,974	36,140		
Total Liabilities and Fund Balances	$ 166	$ 35,974			
NET POSITION					
Restricted for debt service					35,974
Unrestricted (deficit)					(354,852)
Total Net Position (deficit)				$ (355,018)	$ (318,878)

***Adjustments:**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Long-term debt and interest payable are not due and payable in the current period and therefore are not reported in the governmental funds.	(354,546)
Governmental funds report bond discounts as other financing uses. 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.	6,994
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 .	(7,466)
Net position of governmental activities	$ (318,878)

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, 2014

(in thousands of dollars)

	General Fund	Debt Service Fund	Total Governmental Funds	Adjustments (Exhibit C)	Statement of Activities
GENERAL REVENUES					
Tobacco settlement revenues	$ -	$ 25,808	$ 25,808	$ -	$ 25,808
Investment interest	-	40	40	-	40
Net increase (decrease) in fair value of investments	-	8	8	-	8
Total revenues	-	25,856	25,856	-	25,856
EXPENDITURES/EXPENSES					
Current:					
Insurance and financing	48	-	48	-	48
General and administrative	30	-	30	-	30
(Gain)/loss on extinguishment of bonds	-	-	-	131	131
Debt Service:					
Principal	-	8,720	8,720	(8,720)	-
Interest	-	17,236	17,236	1,463	18,699
Total expenditures/expenses	78	25,956	26,034	(7,126)	18,908
Excess (deficiency) of revenues over (under) expenditures	(78)	(100)	(178)	7,126	6,948
Transfers - internal activities	82	(82)	-	-	-
Net change in fund balances	4	(182)	(178)	178	-
Change in net position	-	-	-	6,948	6,948
FUND BALANCES and NET POSITION (DEFICIT)					
Beginning of year	162	36,156	36,318	(359,494)	(323,176)
Cumulative effect of accounting change	-	-	-	(2,650)	(2,650)
Revised beginning of year net position	162	36,156	36,318	(362,144)	(325,826)
End of year	$ 166	$ 35,974	$ 36,140	$ (355,018)	$ (318,878)

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, 2014

(in thousands of dollars)

Amounts reported for governmental activities in the Statement of Net Position are different because:		
Net change in fund balances - total governmental funds	$	(178)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		8,720
Gains and losses on extinguishment of bonds include bond discount amounts in the Statements of Activities. Governmental funds expense such items and thus do not include them in the gain/loss calculation.		(131)
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.		(1,159)
Governmental funds report bond discount as a financing use. The Statement of Activities amortizes the bond discount over the life of the bond issue to interest expense.		(336)
Bond interest is reported as an expenditure in the governmental funds when paid. Interest expense is reported in the Statement of Activities when incurred.		32
Change in net position of government activities	$	6,948

See accompanying notes to the financial statements.

FOOTNOTE INDEX

Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2014

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 Community & Economic Development, or their designees, and two independent members of the public appointed 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 sold to NTSC the residual interest the State previously retained in connection with the issuance of the prior bonds.

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.

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 the Corporation's long-term debt.

New Accounting Pronouncements

For the fiscal year ended June 30, 2014, NTSC has adopted the provisions of the Governmental Accounting Standards Board's ("GASB's") statement number 65, *Items Previously Reported as Assets and Liabilities.* Implementation of this Statement results in bond issuance costs previously recorded as assets amortized over the life of the associated debt instruments now being recognized as expenses when incurred.

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.

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 Corporate 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.

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 in the respective bond indentures, 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, 2014, as described by nationally recognized statistical rating organizations, are shown below (in thousands).

Investment	Moody's	S & P	Investment Fair Value
Commercial paper	P-1	A-1+	$ 35,989
Money market funds	---	AAA	151
			$ 36,140

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 in the bond indentures 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, 2014, NTSC had investment balances greater than 5 percent of NTSC's total investments with the following issuers (in thousands)

Issuer	Investments Fair Value	Percentage Of Total Portfolio
Standard Chartered Bank	$ 35,989	99.58 %

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 bond indentures 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, 2014:

	Investment Fair Value	Modified Duration
Commercial Paper	$ 35,989	0.172
Money market funds	151	0.000
	$ 36,140	
Portfolio modified duration		0.172

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, 2008 to June 1, 2046. The Series 2006B and 2006C bonds accrete interest at 6.125% and 6.375%, 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 principal and interest that NTSC must pay as of the specific distribution dates in order to avoid a default. Debt service requirements, through 2019 and in five year increments thereafter to maturity, are shown below (in thousands):

	Series 2006 Bonds		
Year Ending June 30	**Principal**	**Interest**	**Total**
2015	$ 5,325	$ 16,835	$ 22,160
2016	10,970	16,589	27,559
2017	11,810	16,081	27,891
2018	4,435	15,535	19,970
2019	4,860	15,330	20,190
2020-2024	27,260	73,168	100,428
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
2045-2046	54,193	128,395	182,588
	$ 353,208	$ 468,820	$ 822,028

The activity for long-term debt for the year ended June 30, 2014, is summarized in the following schedule (in thousands):

	June 30, 2013	Additions	Reductions	June 30, 2014	Due Within One Year
Series 2006 bonds payable	$ 361,928	$ -	$ (8,720)	$ 353,208	$ 5,325
Plus: Accreted value	6,307	1,159	-	7,466	-
Less: Discount	(7,461)	-	467	(6,994)	-
Total long-term debt	$ 360,774	$ 1,159	$ (8,253)	$ 353,680	$ 5,325

At June 30, 2014, NTSC maintained a debt service reserve account for the Series 2006 bonds of $27,605,000 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 period ending June 30, 2014.

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 are required by NTSC to prepare, execute, file or deliver pursuant to the bond indentures and the 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, 2014 was approximately $9,000. This amount was included as a portion of General and Administrative Expenditures/Expenses.

NOTE I: CUMULATIVE EFFECT OF ACCOUNTING CHANGE

In fiscal year 2014, NTSC adopted the new accounting pronouncement GASB's Statement number 65, *Items Previously Reported as Assets and Liabilities*, resulting in the write off of bond issuance costs previously incurred and recorded as an asset then amortized over the life of the bonds. The unamortized bond issuance cost balance at June 30, 2013, was $2,650,000. This write off of an asset is reported as a restatement of beginning net position since this activity was incurred in prior years and was not an expense of fiscal year 2014.