Northern Tobacco Securitization Corporation

(a component unit of the State of Alaska)

Financial Statements

With Independent Auditors' Report

June 30, 2002

NORTHERN TOBACCO SECURITIZATION CORPORATION
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OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial performance of the Northern Tobacco Securitization Corporation (NTSC)'s financial activities for the fiscal year ended June 30, 2002. It should be read in conjunction with NTSC's entity-wide financial statements, governmental fund financial statements and the notes to the financial statements. (*For discussion purposes, all figures have been rounded to the nearest million unless otherwise stated.*)

During the year ended June 30, 2002, NTSC adopted the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). GASB 34 requires that governmental fund financial statements be presented in both entity-wide and governmental fund format. As such, NTSC's annual financial statements consist of three parts: (1) management's discussion and analysis, (2) the entity-wide and governmental fund financial statements and (3) the notes to the financial statements.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS

The entity-wide financial statements of NTSC, which include the statement of net assets (deficit) 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. All revenues and expenses are taken into account regardless of when cash is paid or received. This is to provide the reader with a broad overview of NTSC's finances, similar to private-sector financial statements.

CONDENSED FINANCIAL INFORMATION

		2002	2001	Increase (decrease)
Investments	$	29,954	16,024	13,930
Total assets		34,429	18,913	15,516
Accrued interest expense		1,145	598	547
Bonds and notes, net of discount		232,863	115,203	117,660
Total liabilities		234,008	116,122	117,886
Restricted net assets		29,452	15,406	14,046
Unrestricted net assets		(229,031)	(112,615)	(116,416)
Total net assets (deficit)		(199,579)	(97,209)	(102,370)
Tobacco settlement revenue		19,918	—	19,918
Total revenue		21,278	864	20,414
Purchase of a portion of rights to tobacco settlement revenue		109,943	93,000	16,943
Interest expense		13,117	4,923	8,194
Total expenses		123,648	98,073	25,575
Changes in net assets (deficit)		(102,370)	(97,209)	(5,161)

Investments increased $14.0 million, due primarily to $11.1 million in bond proceeds deposited in the debt service reserve account as required under the current year bond issue, and reinvestment of $1.0 million in investment earnings for the current year.

Total assets increased $15.5 million, $14.0 million of which was related to investments. The remaining $1.5 million relates primarily to increased levels of unamortized costs of issuance associated with the current year bond issue.

Accrued interest expense increased $0.5 million due entirely to the current year bond issue.

Bonds and notes, net of discount, increased $117.7 million, due entirely to the $126.8 million current year bond issue less $7.5 million in principal redemptions and $1.7 million in unamortized bond discount.

Total liabilities increased $117.9 million as a result of the increases in accrued interest expense and bonds and notes, net of discount.

Restricted net assets increased $14.0 million, mirroring the increase in investments.

The deficit balance of unrestricted net assets increased $116.4 million, primarily representing the purchase of an additional $109.9 million in rights to tobacco settlement revenues from the State of Alaska. The deficit is a result of current accounting standards requiring that the purchase of the rights to the tobacco settlement revenues be expensed rather than capitalized.

Total net deficit increased $102.4 million as a net result of the changes in the restricted net assets and unrestricted net deficit balances.

Tobacco settlement revenues increased $19.9 million, as the current year amount represents the first scheduled annual payment. No such revenues were received during the prior fiscal year.

Total revenues increased $20.4 million, comprised primarily of the tobacco settlement revenues, with the remaining $0.5 million representing earnings on investments.

Rights to tobacco settlement revenues increased $16.9 million, representing the larger relative portion of bond issue proceeds that was transferred to the State of Alaska from the current year bond issue as compared to the prior year issue.

Interest expense increased $8.2 million, with $5.8 million and $2.4 million representing the current and prior year bond issues, respectively.

Total expenses increased $25.6 million, including the $16.9 million change in rights to tobacco settlement revenues and $8.2 million change in interest expense, with the remaining $0.5 million representing a combination of general operating expenses, amortization of capitalized costs of issuance, and losses on the early extinguishment of long-term debt.

MAJOR FUNDS

NTSC's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current period.

A reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities is presented as note D in the notes to the financial statements. Its purpose is to assist readers in understanding the differences between entity-wide and governmental fund financial statements.

An analysis of the significant balances and transactions in the individual funds is as follows.

DEBT SERVICE FUND

This fund is restricted solely to debt service activities.

Total assets increased $14.0 million, comprised primarily of $11.1 million of invested bond proceeds held in the debt service reserve account for the current year bond issue. A corresponding increase in total net assets also occurred. Total liabilities were unchanged.

Total bond interest expense increased $8.1 million, of which $5.2 million was related to the current year bond issue and $2.9 million to the prior year bond issue.

GENERAL FUND

This fund accounts for all activities not required to be accounted for in another fund.

Proceeds from the issuance of bonds increased by $11.6 million over the prior year, due to the relative sizes of the debt issuances. Similarly, rights to tobacco settlement revenues increased $16.9 million, representing the larger relative portion of bond issue proceeds that was transferred to the State of Alaska from the current year bond issue as compared to the prior year issue.

DEBT ADMINISTRATION

At year end, NTSC had $232.9 million of revenue bonds, net of discount, secured solely by future tobacco settlement revenue and investment earnings. NTSC's debt is rated by the three major rating agencies as follows:

	Series 2000 Bonds	Series 2001 Bonds
Standard & Poor's Ratings Services	A	A
Moody's Investors Service, Inc.	Aa3	Aa3
Fitch, Inc.	A+	A+

Significant debt activity during the year consisted of the issuance of $126.8 million in revenue bonds to purchase the rights to an additional forty percent of future tobacco settlement revenues. Debt service payments totaled $19.9 million, of which $12.4 million represented interest and $7.5 million represented principal paydowns.

KPMG

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Independent Auditors' Report

To the Board of Directors
Northern Tobacco Securitization Corporation:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Northern Tobacco Securitization Corporation (NTSC), a component unit of the State of Alaska, as of and for the year ended June 30, 2002, which collectively comprise the NTSC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of NTSC's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2002, and the respective change in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note B to the financial statements, as of July 1, 2001 NTSC adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 27, 2002

Northern Tobacco Securitization Corporation (*a component unit of the State of Alaska*)
Governmental Funds Balance Sheet / Statement of Net Assets
June 30, 2002 (*in thousands of dollars*)

	General Fund	Debt Service Fund	Total	Adjustments (Note D)	Statement of Net Assets
ASSETS					
Investments	$ 502	29,452	29,954	-	29,954
Interest receivable	-	-	-	23	23
Intergovernmental receivable	5	-	5	-	5
Unamortized costs of issuance	-	-	-	4,447	4,447
Total Assets	507	29,452	29,959	4,470	34,429
LIABILITIES					
Bond Interest Payable	-	-	-	1,145	1,145
Long-term Debt (Note F):					
Due within one year	-	-	-	490	490
Due after one year	-	-	-	234,855	234,855
Unamortized bond discount	-	-	-	(2,482)	(2,482)
Total Liabilities	-	-	-	234,008	234,008
FUND BALANCES/NET ASSETS					
Fund balances:					
Unreserved	507	-	507	(507)	
Reserved for debt service	-	29,452	29,452	(29,452)	
Total Fund Balances	507	29,452	29,959	29,959	
Total Liabilities and Fund Balances	$ 507	29,452	29,959		
Net assets (deficit):					
Restricted for debt service				29,452	29,452
Deficit				(229,031)	(229,031)
Contingencies (note H)					
Total Net Assets				$ (199,579)	(199,579)

See accompanying notes to the financial statements.

Northern Tobacco Securitization Corporation (*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, 2002 (*in thousands of dollars*)

	General Fund	Debt Service Fund	Total	Adjustments (Note D)	Statement of Activities
GENERAL REVENUES					
Tobacco settlement revenues	$ -	19,918	19,918	-	19,918
Investment interest	-	1,217	1,217	(67)	1,150
Net increase in fair value of investments	-	210	210	-	210
Total revenues	-	21,345	21,345	(67)	21,278
EXPENDITURES/EXPENSES					
Current:					
Insurance and financing	95	-	95	-	95
General and administrative	19	-	19	-	19
Costs of issuance	2,050	-	2,050	(1,790)	260
Purchase of a portion of rights to tobacco settlement revenues from the State of Alaska	109,943	-	109,943	-	109,943
(Gain)/loss on extinguishment of bonds	-	(5)	(5)	219	214
Debt Service:					
Principal	-	7,495	7,495	(7,495)	-
Interest	-	12,431	12,431	686	13,117
Total expenditures/expenses	112,107	19,921	132,028	(8,380)	123,648
Excess (deficiency) of revenues over expenditures	(112,107)	1,424	(110,683)	8,313	
Other financing sources/uses:					
Principal amount of bonds issued	126,790	-	126,790	(126,790)	
Bond discount	(1,852)	-	(1,852)	1,852	
Transfers - internal activities	(12,622)	12,622	-	-	
Total other financing sources (uses)	112,316	12,622	124,938	(124,938)	
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	209	14,046	14,255	(14,255)	
Change in net assets				(102,370)	(102,370)
FUND BALANCES / NET ASSETS (DEFICIT)					
Beginning of year	298	15,406	15,704	(112,913)	(97,209)
End of year	$ 507	29,452	29,959	(229,538)	(199,579)

See accompanying notes to the financial statements.

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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 Housing Finance Corporation Act, 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 (State). 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 cigarette smoking-related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking-related claims, and provides for a continuing release of future smoking-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.

NTSC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. In October 2000, and again in August 2001, NTSC issued revenue bonds that are the sole obligation of NTSC. Neither AHFC nor the State is liable for any debt issued by NTSC.

In October 2000, pursuant to a Purchase and Sale Agreement with the State, the State via AHFC 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 with the bonds have been fulfilled, the TSRs revert back to the State under a residual certificate. Consideration paid by NTSC through AHFC 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 of 2001, pursuant to a Purchase and Sale Agreement with the State, the State via AHFC 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 with the bonds have been fulfilled, the TSRs revert back to the State under a residual certificate. Consideration paid by NTSC through AHFC 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.

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.

Pursuant to the bond indentures, these adjustments could affect the amount of funds available to pay scheduled debt service requirements.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

During the year ended June 30, 2002, NTSC adopted the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37. These statements established new financial reporting requirements (new reporting model) for state and local governments. The adoption of these statements required NTSC to make several changes to the presentation of its basic financial statements and related note disclosures, in addition to requiring the presentation of a new section called Management's Discussion and Analysis.

Government-wide and Fund Financial Statements

The statement of net assets and the statement of changes in net assets 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.

NTSC reports the following major governmental funds:

The *general fund* is NTSC's primary operating fund. It accounts for all financial resources not required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

NOTE C: ASSETS, LIABILITIES AND FUND EQUITY

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires NTSC management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Investments

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

Intergovernmental Receivable

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

Long-Term Debt

NTSC reports long-term debt at face value. Bond premiums, discounts and issuance costs are capitalized and amortized over the life of the related debt in the entity-wide financial statements. The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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 debt service 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 and costs of issuance 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 discount and costs of issuance 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

The financial activities of NTSC are restricted by bond resolution and designated by legislative intent.

NOTE D: RECONCILIATION OF GOVERNMENTAL FUND AND ENTITY-WIDE STATEMENTS

The following table reconciles the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities as of June 30, 2002, and describes those items presented differently in the statements.

(*in thousands of dollars*)		Year Ended June 30, 2002
Net change in fund balances - total governmental funds	$	14,255
Amounts for governmental activities in the statement of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statement of net assets		(126,790)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		7,495
Governmental funds report costs of debt issuance as expenditures. The statement of activities amortizes such items over the life of the debt.		1,790
Governmental funds report bond discounts as other financing uses. The statement of activities amortizes such items to interest expense over the life of the debt.		1,852
Gains and losses on extinguishment of bonds include unamortized costs of issuance and bond discount amounts in the statements of activities. Governmental funds expense such items and thus do not include them in the gain/loss calculation.		(219)
Bond discounts and premiums are reported as an other financing source or use in governmental funds when the related bond proceeds are received. Bond discounts and premiums are amortized over the life of the bond issue into interest expense in the statement of activities.		(140)
Bond interest is reported as an expenditure in governmental funds when paid. Interest expense is reported in the statement of activities when incurred.		(546)
Governmental funds defer interest receivable not received within 60 days. The statement of statement of activities recognizes interest income when earned.		(67)
Change in net assets of governmental activities	**$**	**(102,370)**

NOTE E: INVESTMENTS

GASB 3 Custodial Credit Risk

NTSC assumes levels of custodial credit risk for its bank investment agreements and other investments.

Bank investment agreements are classified into the following categories:
1) insured by federal depository insurance or collateralized by securities held by NTSC's agent in NTSC's name;
2) collateralized with securities held by the bank's trust department or agent, but not in NTSC's name;
3) uninsured and uncollateralized.

Investments are classified into the following categories:

1) insured, registered, or held by NTSC or its agent in NTSC's name;
2) uninsured and unregistered, held by the counterparty's trust department or agent in NTSC's name;
3) uninsured and unregistered investments that are held by a counterparty, or by its trust department or agent, but not in NTSC's name.

The balance of bank investment agreements and other investments is categorized below (in thousands):

		Category 1	Category 2	Category 3	June 30, 2002
Bank investment agreements	$	-	-	3,288	3,288
U.S. agency securities		11,055	-	-	11,055
		11,055	-	3,288	
Money market funds	$				15,611
Total investments				$	29,954

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 and 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 and 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 that are non-callable and acceptable to each rating agency.

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.

	June 30, 2002
Due in one year or less	29,954
Due from one to five years	-
Due from five to ten years	-
Due after ten years	-
Total investments	29,954

NOTE F: LONG-TERM DEBT

On October 13, 2000, NTSC issued $116,050,000 of revenue bonds (the Series 2000 bonds) containing both serial and term components. The Series 2000 bonds were issued to purchase the initial 40% portion of TSRs from the State. On August 2, 2001, NTSC issued an additional $126,790,000 of revenue bonds (the Series 2001 bonds), also containing both serial and term components. The Series 2001 bonds were issued to purchase the additional 40% portion of TSRs from the State. Both Series are secured by and payable solely from the TSRs and investment earnings pledged under their respective bond indentures and amounts established and held in accordance with those bond indentures.

The Series 2000 bonds bear interest at a fixed annual rate, between 5.40% and 6.50%, payable semi-annually until the principal is redeemed. The serial bonds mature on June 1, 2008, through June 1, 2013. The term bonds have scheduled sinking fund maturities of June 1, 2022 and 2031.

The Series 2001 bonds bear interest at a fixed annual rate, between 3.50% and 5.50%, payable semi-annually until the principal is redeemed. The serial bonds mature on June 1, 2003, and on June 1, 2008, through June 1, 2011. The term bonds have scheduled sinking fund maturities of June 1, 2021 and 2029.

The term bonds in both 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 default.

Scheduled debt service payments, which represent the minimum amount of principal and interest that NTSC must pay as of the specific distribution dates in order to avoid a default, are as follows (in thousands):

	Series 2000 Bonds			Series 2001 Bonds		
June 1	Principal	Interest	Total	Principal	Interest	Total
2003	$ -	6,951	6,951	490	6,358	6,848
2004	-	6,951	6,951	-	6,330	6,330
2005	-	6,951	6,951	-	6,318	6,318
2006	-	6,951	6,951	-	6,304	6,304
2007	-	6,951	6,951	-	6,290	6,290
2008 - 2012	23,480	31,613	55,093	8,465	28,900	37,365
2013 - 2017	28,855	23,882	52,737	29,910	23,040	52,950
2018 - 2022	14,090	16,579	30,669	30,035	16,701	46,736
2023 - 2027	22,715	11,351	34,066	-	9,272	9,272
2028 - 2031	23,100	3,106	26,206	54,205	929	55,134
	$ 112,240	121,290	233,530	123,105	110,442	233,547

The changes in long-term debt are as follows (in thousands):

	Balance at Inception	Cumulative Redemptions	June 30, 2002 Balance
Series 2000 bonds payable	116,050	3,810	112,240
Less discount	(878)	(106)	(772)
Total Series 2000 bonds payable	115,172	3,704	111,468
Series 2001 bonds payable	126,790	3,685	123,105
Less discount	(1,852)	(142)	(1,710)
Total Series 2001 bonds payable	124,938	3,543	121,395

At June 30, 2002, NTSC maintained debt service reserve accounts for the Series 2000 and 2001 bonds at $11,324,034 and $11,056,171, respectively, as required under the governing bond indentures.

NOTE G: 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 and paid for the period from July 1, 2001, through June 30, 2002.

NOTE H: CONTINGENCIES

Litigation

In October 2000, a complaint was filed in the Superior Court for the State of Alaska, Third Judicial District (Myers v. State of Alaska, Alaska Housing Finance Corporation and Northern Tobacco Securitization Corporation), seeking a declaratory judgment determining that the sale of the 2000 TSRs by the State to AHFC or to NTSC is a dedication of State funds for a special purpose, in violation of Section 7, Article IX, of the Alaska Constitution. On October 24, 2000, Superior Court Judge Hensley ruled that such sale of the 2000 TSRs did not violate the Alaska Constitution. Plaintiff thereafter appealed to the Alaska Supreme Court; oral arguments have been heard.

Any adverse decision in the Myers litigation will likely adversely affect the validity of the sale of the 2000 and 2001 TSRs to NTSC, and NTSC's ability to repay bondholders.

NOTE I: 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 was $ 6,000 for the period from July 1, 2001, through June 30, 2002.