



Northern Tobacco Securitization Corporation

**NORTHERN TOBACCO SECURITIZATION CORPORATION
ANNUAL MEETING OF THE BOARD OF DIRECTORS**

**NOVEMBER 30, 2016 – 8:45 A.M.
ANCHORAGE/JUNEAU/FAIRBANKS**

AGENDA

- I. ROLL CALL**
- II. APPROVAL OF AGENDA**
- III. MINUTES: JUNE 10, 2015**
- IV. PUBLIC COMMENTS**
- V. ORGANIZATION OF BOARD**
 - A. BOARD MEMBERS' OATH OF OFFICE**
 - B. ELECTION OF OFFICERS**
- VI. NEW BUSINESS**
 - A. RESOLUTION NO. 2016-01: REVIEW OF FISCAL YEAR 2015 AND 2016 BUDGETS AND APPROVAL OF FISCAL YEAR 2017 AND 2018 BUDGETS**
 - B. RESOLUTION NO. 2016-02: APPROVAL OF FISCAL YEAR 2015 AND 2016 ANNUAL REPORTS AND ACCOMPANYING SAS 114 STANDARD COMMUNICATIONS REPORTS**
 - C. RESOLUTION NO. 2016-03: APPROVAL OF CHANGE OF REGISTERED AGENT**
 - D. OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD**
- VII. ADJOURNMENT**

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

**NORTHERN TOBACCO SECURITIZATION CORPORATION
ANNUAL BOARD OF DIRECTORS MEETING**

June 10, 2015

9:00 a.m.

Anchorage / Juneau / Fairbanks

The Annual Board of Directors Meeting of the Northern Tobacco Securitization Corporation (“NTSC”) was held at Alaska Housing Finance Corporation (“AHFC”), 1st Floor, 4300 Boniface Parkway, in Anchorage, Alaska on June 10, 2015 commencing at 9:00 a.m.

The following board members were present at the meeting (or attended via teleconference):

JERRY BURNETT
Anchorage

**Designee for Commissioner
Department of Revenue
Member of the Board**

TARA HORTON
Anchorage

**Designee for Commissioner
Department of Health
& Social Services
Member of the Board**

JON BITTNER
Anchorage

**Designee for Commissioner
Department of Commerce,
Community & Economic
Development
Member of the Board**

I. ROLL CALL. A quorum was declared present and the meeting was duly and properly convened for the transaction of business.

II. ELECTION OF ACTING CHAIR. JERRY BURNETT opened the floor for nominations for Acting Chair. JON BITTNER nominated JERRY BURNETT as the acting Chair. TARA HORTON seconded the motion. JERRY BURNETT was elected as Acting Chair by roll call vote. (3-0)

II. APPROVAL OF AGENDA. ACTING CHAIR BURNETT proposed the agenda be approved as presented. Seeing and hearing no objections, the agenda was approved as presented.

III. MINUTES: January 9, 2013. ACTING CHAIR BURNETT asked for revisions or acceptance of the minutes. Seeing and hearing no objection, the minutes were approved as presented.

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IV. PUBLIC COMMENTS. There were no public comments in Anchorage, Juneau or Fairbanks.

V. ORGANIZATION OF THE BOARD.

A. BOARD MEMBERS' OATH OF OFFICE. ACTING CHAIR BURNETT read the item into record. All board members verbally confirmed their oath of office by roll call.

B. ELECTION OF NTSC OFFICERS. ACTING CHAIR BURNETT read the item into record. JON BITTNER nominated JERRY BURNETT as Board Chair, TARA HORTON as Secretary / Treasurer and BRYAN BUTCHER as Vice President. TARA HORTON seconded the motion. Seeing and hearing no objection, the motion carried by roll call vote (3-0).

VI. NEW BUSINESS.

A. RESOLUTION NO. 2015-01: REVIEW OF FISCAL YEAR 2013 AND 2014 BUDGETS AND APPROVAL OF FISCAL YEAR 2015 AND 2016 BUDGETS. CHAIR BURNETT introduced the item and GERRY DETA presented. Mr. Deta gave an overview of the Budgets to the Board. TARA HORTON made a motion to approve Resolution 2015-01. JON BITTNER seconded the motion. No further discussion or objection was heard. Resolution No. 2015-01 passed (3-0).

RESOLUTION 2015-01

RESOLUTION OF THE BOARD OF DIRECTORS OF THE NORTHERN TOBACCO SECURITIZATION CORPORATION APPROVING THE ANNUAL BUDGETS FOR THE FISCAL YEARS ENDED JUNE 30, 2015, AND JUNE 30, 2016.

B. RESOLUTION NO. 2015-02: APPROVAL OF FISCAL YEAR 2013 AND 2014 ANNUAL REPORTS. CHAIR BURNETT read the item into record and GERRY DETA presented. Mr. Deta gave an overview of the NTSC Annual Reports to the Board. Discussion followed. JON BITTNER made a motion to approve Resolution 2015-02. TARA HORTON seconded the motion. No further discussion or objection was heard. Resolution No. 2015-02 passed (3-0).

RESOLUTION 2015-02

RESOLUTION OF THE BOARD OF DIRECTORS OF THE NORTHERN TOBACCO SECURITIZATION CORPORATION APPROVING THE ANNUAL REPORTS FOR THE FISCAL YEARS ENDED JUNE 30, 2013, AND JUNE 30, 2014.

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C. OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD. CHAIR BURNETT asked if there were any other matters to properly come before the board. JON BITTNER made a motion to adjourn. Seeing and hearing no objections, the meeting was adjourned at 9:13 a.m.

ATTESTED:

Jerry Burnett
Board Chair



MEMORANDUM

DATE: November 30, 2016
TO: Board of Directors
FROM: Staff
RE: Oath of Office

Issue:

The State of Alaska Oath of Office must be taken by directors on the NTSC Board or affirmed as having been taken previously and remaining in effect.

Recommendation and requested action:

The minutes should reflect that all directors executed the State of Alaska Oath of Office either at or prior to the present meeting, and that each director confirms at the present meeting that his or her oath remains in effect.



MEMORANDUM

DATE: November 30, 2016
TO: Board of Directors
FROM: Staff
RE: Election of Officers

The NTSC By-Laws provide for an election of officers for the NTSC Board at the Annual Meeting. The officers to be elected are as follows:

Chair
President
Vice President
Secretary
Treasurer

Current officers: Jerry Burnett, Chair/President
(Vacant), Secretary/Treasurer
Bryan Butcher, Vice President



MEMORANDUM

DATE: November 30, 2016
TO: Board of Directors
FROM: Staff
RE: Review of FY 2015 and FY 2016 Budgets and Approval of FY 2017 and FY 2018 Budgets

Issue:

The Corporation requires Board approval of its annual budget.

Draft budgets for FY 2017 and FY 2018 are attached, along with comparisons of budgeted-to-actual expenses for FY 2015 and FY 2016.

Recommendation and requested action:

The Board is requested to authorize the attached budgets for FY 2017 and FY 2018.



Northern Tobacco Securitization Corporation

RESOLUTION NO. 2016-01

RESOLUTION OF THE BOARD OF DIRECTORS OF THE NORTHERN TOBACCO SECURITIZATION CORPORATION APPROVING THE ANNUAL BUDGETS FOR THE FISCAL YEARS ENDED JUNE 30, 2017, AND JUNE 30, 2018.

RESOLVED, that the Board of Directors of the Northern Tobacco Securitization Corporation hereby approves the annual budgets for the fiscal years ended June 30, 2017, and June 30, 2018, copies of which have been presented to, and are made a part of the record of, this meeting.

DATED this 30th day of November, 2016.

By: _____
Chair



Budget-to-Actuals Analysis
Fiscal Year Ending June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Tobacco Settlement Revenues	\$ 59,580	\$ 53,041	\$ 6,539
AHFC Building Lease	3,700	3,592	108
AHFC Services	5,280	5,305	(25)
General Expenses	17,000	13,388	3,612
Trustee Fees and Expenses	22,000	21,074	926
Audit Fees	5,500	5,150	350
Board Travel & Stipend Expenses	1,500	0	1,500
Board Liability Insurance	<u>4,600</u>	<u>4,532</u>	<u>68</u>
Total Expenses	59,580	53,041	6,539



Budget-to-Actuals Analysis
Fiscal Year Ending June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Tobacco Settlement Revenues	\$ 59,580	\$ 47,906	\$ 11,674
AHFC Building Lease	3,700	3,592	108
AHFC Services	5,280	5,305	(25)
General Expenses	17,000	10,203	6,797
Trustee Fees and Expenses	22,000	18,906	3,094
Audit Fees	5,500	5,500	0
Board Travel & Stipend Expenses	1,500	0	1,500
Board Liability Insurance	<u>4,600</u>	<u>4,400</u>	<u>200</u>
Total Expenses	59,580	47,906	11,674



**Operating Budget
Fiscal Year Ending June 30, 2017**

Revenues

Tobacco Settlement Revenues	\$ 53,405	
Total Revenues		\$ 53,405

Expenditures

AHFC Building Lease	3,600	
AHFC Services	5,305	
General Expenses	12,000	
Trustee Fees & Expenses	21,000	
Audit Fees	5,500	
Board Travel & Stipend Expenses	1,500	
Board Liability Insurance	4,500	
Total Expenses		53,405
Excess of Expenses over Revenues		\$ 0

Note that the revenues and expenses anticipated for debt service are not shown on this budget. Consistent with the "full turbo" structure of NTSC's bonds, all revenues not required for payment of debt service and the above-detailed operating expenses shall be used to redeem bonds.



**Operating Budget
Fiscal Year Ending June 30, 2018**

Revenues

Tobacco Settlement Revenues	\$ 53,405	
Total Revenues	<u>53,405</u>	\$ 53,405

Expenditures

AHFC Building Lease	3,600	
AHFC Services	5,305	
General Expenses	12,000	
Trustee Fees & Expenses	21,000	
Audit Fees	5,500	
Board Travel & Stipend Expenses	1,500	
Board Liability Insurance	4,500	
Total Expenses	<u>53,405</u>	53,405
Excess of Expenses over Revenues		<u>\$ 0</u>

Note that the revenues and expenses anticipated for debt service are not shown on this budget. Consistent with the "full turbo" structure of NTSC's bonds, all revenues not required for payment of debt service and the above-detailed operating expenses shall be used to redeem bonds.



MEMORANDUM

DATE: November 30, 2016
TO: Board of Directors
FROM: Staff
RE: Authorization of Annual Reports

Issue:

Article VII, Section (xiii) of the Articles of Incorporation requires that the Corporation be audited annually and any financial reports required of the Corporation be prepared in accordance with generally accepted accounting principles. Article III, Section 11, of the By-Laws requires that such annual reports be entered into the minutes of, and filed with the records of, the Corporation at its annual meeting.

Recommendation and requested action:

In accordance with the By-Laws and Articles of Incorporation, the Board is requested to authorize the attached annual reports for FY 2015 and FY 2016.



Northern Tobacco Securitization Corporation

RESOLUTION NO. 2016-02

RESOLUTION OF THE BOARD OF DIRECTORS OF THE NORTHERN TOBACCO SECURITIZATION CORPORATION APPROVING THE ANNUAL REPORTS FOR THE FISCAL YEARS ENDED JUNE 30, 2015, AND JUNE 30, 2016.

RESOLVED, that the Board of Directors of the Northern Tobacco Securitization Corporation hereby approves the Annual Reports for the fiscal years ended June 30, 2015, and June 30, 2016, copies of which have been presented to, and are made a part of the record of, this meeting.

DATED this 30th day of November, 2016.

By: _____
Chair

Northern Tobacco Securitization Corporation, a component unit of the State of Alaska



AUDIT WRAP-UP

Year Ended June 30, 2015

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., Board of Directors and Audit Committee) and, if appropriate, management of the Corporation and is not intended and should not be used by anyone other than these specified parties.

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3601 C Street, Suite 600
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September 24, 2015

The Audit Committee
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 **June 17, 2015** 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, 2015, 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 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 completed our audit of the financial statements as of and for the year ended June 30, 2015. 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.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We have issued unmodified opinions on the financial statements and release our report on **September 24, 2015**.
- 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 the Corporation's 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 A 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 A to the financial statements.

- A summary of recently issued accounting pronouncements is included in Note 2 to the Corporation's financial statements.
- There were changes in significant accounting policies and practices during 2015.

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 significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed below:

Significant accounting estimates include:

We did not identify any significant accounting estimates in 2015

- We did not identify any significant or unusual transactions, or any transactions for which there was a lack of authoritative guidance.

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

Results of Our Audit

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 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, 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.
If applicable, 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.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
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.
If applicable, 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.

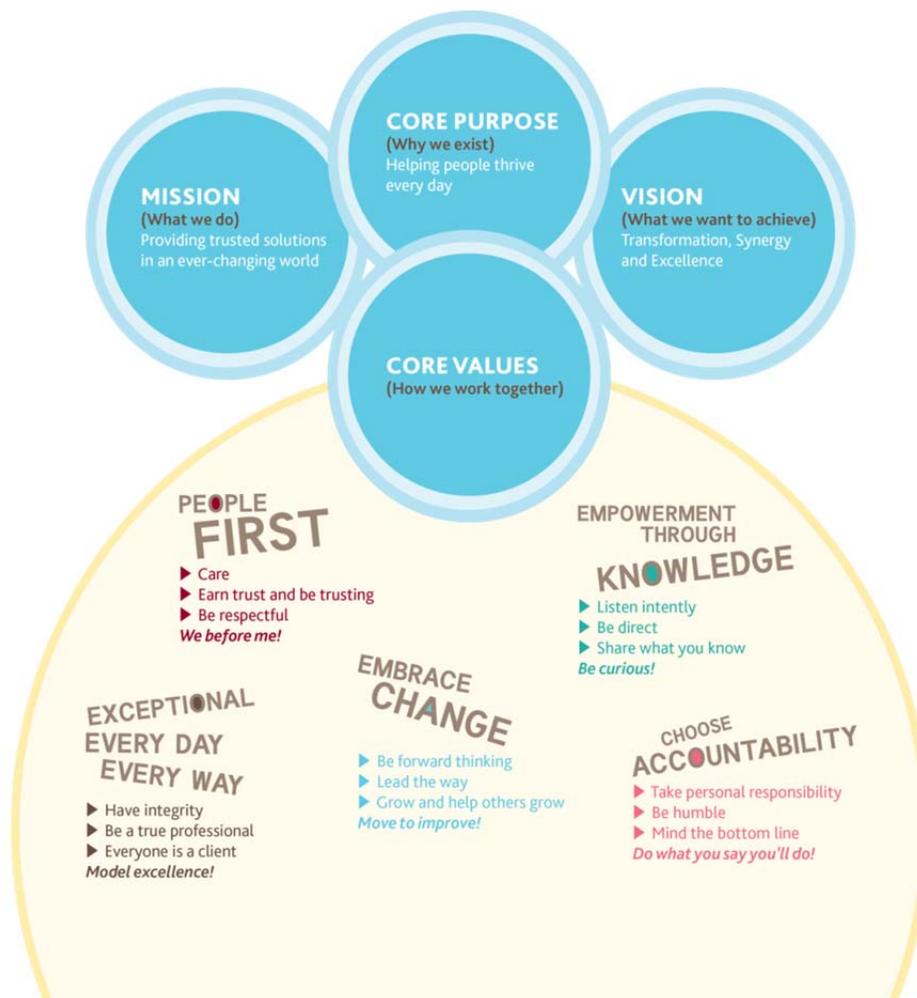
Independence Communication

Our engagement letter to you dated May 26, 2015 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.

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Get to Know BDO

The firm serves clients through 58 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,328+ offices in over 150 countries.



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- Natural Resources
- Nonprofit & Education
- Private Equity
- Public Sector
- Real Estate & Construction
- Restaurants
- Technology & Life Sciences

Northern Tobacco Securitization Corporation

a component unit of the State of Alaska

Financial Statements

With Independent Auditors' Report

June 30, 2015

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For comments please contact:

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Anchorage, AK 99503

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, 2015, 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, 2015, 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.

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 24, 2015
Anchorage, Alaska

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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, 2015. 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, 2015, 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)

	2015	2014
Investments	\$ 35,989	\$ 36,140
Total assets	35,992	36,140
Bonds, net	348,696	353,680
Total liabilities	350,009	355,018
Restricted net position	35,821	35,974
Unrestricted net position (deficit)	(349,838)	(354,852)
Total net position (deficit)	(314,017)	(318,878)

There were no significant changes in total assets for the year ended June 30, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total liabilities decreased \$5.0 million primarily as a result of principal paydowns on bonds for the year ended June 30, 2015.

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, 2015. There were no significant changes in restricted net position.

CONDENSED STATEMENT OF ACTIVITIES

(in thousands)

	2015	2014
Tobacco settlement revenue	\$ 23,340	\$ 25,808
Total revenue	23,386	25,856
Interest expense	18,363	18,699
Total expenses	18,525	18,908
Excess of revenues over expenses	4,861	6,948
Changes in net position	4,861	6,948
Cumulative effect of accounting change	-	(2,650)

Total revenue decreased by \$2.5 million for the year ended June 30, 2015, due primarily to a decrease in tobacco settlement revenue.

There were no significant changes in total expenses for the year ended June 30, 2015.

The cumulative effect of accounting change of \$2.6 million for the year ended June 30, 2014 was incurred as a result of implementing the Government Accounting Standard Board's Statement No. 65, which required the removal of unamortized bond issuance costs.

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, 2015, NTSC had \$348.7 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 2015 consisted of debt service payments of \$23.4 million of which \$16.8 million represented interest and \$6.6 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'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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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NORTHERN TOBACCO SECURITIZATION CORPORATION

EXHIBIT A

(A Component Unit of the State of Alaska)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

June 30, 2015

(in thousands of dollars)

	General Fund	Debt Service Fund	Governmental Funds Balance Sheet Total	Adjustments*	Statement of Net Position Total
ASSETS					
Investments	\$ 171	\$ 35,818	\$ 35,989	\$ -	\$ 35,989
Interest receivable	-	3	3	-	3
Total Assets	<u>171</u>	<u>35,821</u>	<u>35,992</u>	<u>-</u>	<u>35,992</u>
LIABILITIES					
Bond interest payable	-	-	-	1,313	1,313
Intergovernmental payable	-	-	-	-	-
Long-term debt:					
Due within one year	-	-	-	9,670	9,670
Due after one year	-	-	-	336,913	336,913
Unamortized bond discount	-	-	-	(6,584)	(6,584)
Accreted value	-	-	-	8,697	8,697
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,009</u>	<u>350,009</u>
FUND BALANCES					
Fund balances:					
Unassigned	171	-	171		
Restricted for debt service	-	35,821	35,821		
Total Fund Balances	<u>171</u>	<u>35,821</u>	<u>35,992</u>		
Total Liabilities and Fund Balances	<u>\$ 171</u>	<u>\$ 35,821</u>			

NET POSITION

Restricted for debt service		35,821
Unrestricted (deficit)		(349,838)
Total Net Position (deficit)	<u>\$ (350,009)</u>	<u>\$ (314,017)</u>

***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.	(347,896)
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.	6,584
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 .	(8,697)
Net position of governmental activities	<u>\$ (314,017)</u>

See accompanying notes to the financial statements.

NORTHERN TOBACCO SECURITIZATION CORPORATION

EXHIBIT B

(A Component Unit of the State of Alaska)

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

For the Year Ended June 30, 2015

(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	\$ -	\$ 23,340	\$ 23,340	\$ -	\$ 23,340
Investment interest	-	52	52	-	52
Net increase (decrease) in fair value of investments	-	(6)	(6)	-	(6)
Total revenues	<u>-</u>	<u>23,386</u>	<u>23,386</u>	<u>-</u>	<u>23,386</u>
EXPENDITURES/EXPENSES					
Current:					
Insurance and financing	47	-	47	-	47
General and administrative	27	-	27	-	27
(Gain)/loss on extinguishment of bonds	-	-	-	88	88
Debt Service:					
Principal	-	6,625	6,625	(6,625)	-
Interest	-	16,835	16,835	1,528	18,363
Total expenditures/expenses	<u>74</u>	<u>23,460</u>	<u>23,534</u>	<u>(5,009)</u>	<u>18,525</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(74)</u>	<u>(74)</u>	<u>(148)</u>	<u>5,009</u>	<u>4,861</u>
Transfers - internal activities	<u>79</u>	<u>(79)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	5	(153)	(148)	148	-
Change in net position	-	-	-	4,861	4,861
FUND BALANCES and NET POSITION (DEFICIT)					
Beginning of year	166	35,974	36,140	(355,018)	(318,878)
End of year	<u>\$ 171</u>	<u>\$ 35,821</u>	<u>\$ 35,992</u>	<u>\$ (350,157)</u>	<u>\$ (314,017)</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, 2015

(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	\$	(148)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		6,625
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.		(88)

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.		(1,231)
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.		(322)
Bond interest is reported as an expenditure in the governmental funds when paid. Interest expense is reported in the Statement of Activities when incurred.		25

Change in net position of government activities	<u>\$</u>	<u>4,861</u>
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See accompanying notes to the financial statements.

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Notes to Financial Statements

FOOTNOTE INDEX

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A	The Northern Tobacco Securitization Corporation	10
B	Summary of Significant Accounting Policies	11
C	Assets, Liabilities and Fund Equity	11 – 12
D	Investments	12 – 13
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F	Yield Restriction and Arbitrage Rebate	15
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Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2015

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 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.

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.

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.

Notes to Financial Statements

The credit quality ratings of NTSC's investments as of June 30, 2015, as described by nationally recognized statistical rating organizations, are shown below (in thousands).

<u>Investment</u>	<u>Moody's</u>	<u>S & P</u>	<u>Investment Fair Value</u>
Money market funds	---	AAA	\$ <u>35,989</u>

Concentration Risk

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

Investment Holdings Greater than Five Percent of Total Portfolio

The following investment holdings, summarized by issuer, are trusted investments which have no established concentration limits. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds are excluded from this summary. As of June 30, 2015, NTSC had investment balances greater than 5 percent of its total investments with the following issuers (in thousands)

<u>Issuer</u>	<u>Investments Fair Value</u>	<u>Percentage Of Total Portfolio</u>
Goldman Sachs	\$ 35,989	100 %

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, 2015:

	<u>Investment Fair Value</u>	<u>Modified Duration</u>
Money market funds	\$ <u>35,989</u>	0.000
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.

Notes to Financial Statements

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% 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 principal and interest that NTSC must pay as of the specific distribution dates in order to avoid a default. Debt service requirements, through 2020 and in five year increments thereafter to maturity, are shown below (in thousands):

Series 2006 Bonds					
Year Ending June 30	Principal		Interest		Total
2016	\$	9,670	\$	16,529	\$ 26,199
2017		11,810		16,081	27,891
2018		4,435		15,535	19,970
2019		4,860		15,330	20,190
2020		4,645		15,105	19,750
2021-2025		29,095		71,885	100,980
2026-2030		38,530		63,910	102,440
2031-2035		51,575		52,946	104,521
2036-2040		66,985		38,672	105,657
2041-2045		91,410		19,641	111,051
2046		33,568		69,260	102,828
	\$	346,583	\$	394,894	\$ 741,477

The activity for long-term debt for the year ended June 30, 2015, is summarized in the following schedule (in thousands):

	June 30,			June 30,	Due Within
	2014	Additions	Reductions	2015	One Year
Series 2006 bonds payable	\$ 353,208	\$ -	\$ (6,625)	\$ 346,583	\$ 9,670
Plus: Accreted value	7,466	1,231	-	8,697	-
Less: Discount	(6,994)	-	410	(6,584)	-
Total long-term debt	<u>\$ 353,680</u>	<u>\$ 1,231</u>	<u>\$ (6,215)</u>	<u>\$ 348,696</u>	<u>\$ 9,670</u>

At June 30, 2015, NTSC maintained a debt service reserve account for the Series 2006 bonds of \$27,605,000 as required under the governing bond indenture.

Notes to Financial Statements

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, 2015.

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, 2015 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, 2016



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., the Board) and, if appropriate, management of the Corporation and is not intended and should not be used by anyone other than these specified parties.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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September 30, 2016

The Audit Committee
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 **June 29, 2016** 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, 2016**, 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 on **November 30, 2016** 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 completed our audit of the financial statements as of and for the year ended June 30, 2016. 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.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We have issued unmodified opinions on the financial statements and released our report on **September 30, 2016**.
- All records and information requested by BDO were available for our inspection.
- Management's cooperation was excellent. We received access to all information that we requested while performing our audit, and we acknowledge the 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 adopted the following new GASB pronouncements in 2016:
 - GASB Statement 72, *Fair Value Measurement and Application*. For the Corporation, this changed the required disclosures related to the method of valuing and categorizing the Corporations investments.
- There were no other changes in significant accounting policies and practices during 2016.

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 significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed below:

Significant accounting estimates include:

No significant estimates noted

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2016.
- We did not identify any significant or unusual transactions, or any transactions for which there was a lack of authoritative guidance.

Results of Our Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

There were no corrected misstatements 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 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, 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.

We did not identify any deficiencies in internal controls over financial reporting that we consider to be 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.
If applicable, 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.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
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, that were not satisfactorily resolved.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Representations requested from management	Please refer to the attached management representation letter.

Independence Communication

Our engagement letter to you dated **May 16, 2016** 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.

BDO Board Reflections and Ac'sense Programs

The **BDO Board Reflections** resource center is developed with Board members in mind. Understanding the roles, responsibilities, and risks associated with each committee, BDO routinely provides guidance to Directors as they navigate through ever changing challenges in today's corporate climate. BDO's proprietary studies, publications, practice aids, and educational programs help fuel conversations among those charged with corporate governance - who are making the tough decisions. BDO's thought-provoking resources are tailored to help keep Board members ahead of the trends while meeting compliance obligations. For a comprehensive listing of such resources, visit <http://www.bdo.com/board>.

In line with the board resource center is **Ac'senseSM**, BDO's program designed to assist both those charged with governance (including Audit Committees and Boards of Directors) as well as financial executives of both public and private companies in keeping up to date on the latest corporate governance and financial reporting developments.

The program is multi-faceted and consists of complimentary CPE-worthy webinars and self-study courses covering both broad and specific topics of interest, publications, and links to various BDO and external resources. Visit <http://www.bdo.com/acsense/>.

AC'SENSESM WEBINARS

Our webinar programs are presented by our firm technical experts and comprise both short-form and longer-form webinars on a variety of "hot" topics of interest, such as "Compensation Risk," "Fair Value Matters," "Business Combinations," "Applying New Revenue Recognition Rules," "Ethics and the Corporate Board," and many others. In addition, we host several series including our "Quarterly Technical Updates" and "International Financial Reporting Standards" on financial accounting and reporting matters as well as "Focus on Fraud."

Our webinars are complimentary and are generally applicable for Audit Committees, Board members, management, finance and compliance professionals of both public and private companies. In addition, most webinars and archives are worthy of Continuing Professional Education (CPE) credit. Please visit our website <http://www.bdo.com/acsense/> for further information on upcoming and archived webinars.

EFFECTIVE AUDIT COMMITTEES IN THE EVER CHANGING MARKETPLACE

The focus of BDO's governance initiatives is to provide those charged with governance with essential, relevant information through clear and concise executive summary-type communications. In this spirit, we have created the [*Effective Audit Committees in the Ever Changing Marketplace*](#) publication as a practical guide to forming and running an effective Audit Committee. Within this publication, we provide answers to certain frequently asked questions (FAQs) centering on the WHYs, WHOs, WHATs, WHENs, and HOWs of Audit Committees. More specifically, these FAQs summarize the common functions and responsibilities of Audit Committees and seek to provide insights and perspective as to how to optimize Audit Committee effectiveness. Our vision has been shaped by our own experiences with our clients and interpretations of the specific recommendations, guidelines and rules of the SEC; the stock exchanges; the Public Company Accounting Oversight Board (PCAOB); the American Institute of Certified Public Accountants (AICPA); and the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, sponsored by the New York Stock Exchange and the National Association of Securities Dealers.

Throughout this publication, we focus on some of the more challenging aspects facing Audit Committees. To that end, in addition to our commentary, we have included links and references to other relevant BDO practice aids and tools as well as certain valuable external resources. The guide and practices aids are available at <http://www.bdo.com/acsense/effective.aspx>.

BDO Resources

BDO is a national professional services firm providing assurance, tax, financial advisory, and consulting services to a wide range of publicly traded and privately held companies. Guided by core values including competence, honesty and integrity, professionalism, dedication, responsibility, and accountability for 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

The firm serves clients through 40 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,082 offices in 119 countries. BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For further information, please refer to <http://www.bdo.com/about/>.

Below is a summary of just some of the many resources BDO makes available at no additional charge to our clients. To subscribe to BDO publications, please use our RSS (Really Simple Syndication) Feeds or complete registration at BDO's Subscription Center at <https://subscriptions.bdo.com/>.

BDO KNOWS FINANCIAL REPORTING LETTERS AND FLASH REPORTS

Our *BDO Knows* financial reporting newsletters address significant financial reporting developments, relating to both public and private businesses, that occur throughout the year. In addition, our Flash reports are intended to highlight certain financial reporting developments in a timely and brief "flash" format.

TAX ALERTS AND NEWSLETTERS

BDO's National Tax Organization (NTO) provides a multitude of alerts and newsletters spanning considerations involving expatriate, federal, state, and local jurisdictions and includes such areas as compensation and benefits, and credits and incentives. NTO further provides Tax Seminars/Webinars on a variety of topics, whose archives are readily available to clients and contacts.

INDUSTRY PUBLICATIONS

BDO's industry publications are numerous and span the sectors of government, technology, finance, insurance, healthcare, retail and consumer products, not-for-profit and real estate, among many others.

For a complete listing of services, publications, archives of various webinars and events and other information regarding BDO, please visit <http://www.bdo.com/> for further information.

For further information on the following BDO industries, please visit <http://www.bdo.com./industries/>.

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- [Real Estate](#)
- [Retail & Consumer Products](#)
- [Technology & Life Sciences](#)

Northern Tobacco Securitization Corporation

a component unit of the State of Alaska

Financial Statements

With Independent Auditors' Report

June 30, 2016

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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, 2016, 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, 2016, 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 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 30, 2016
Anchorage, Alaska

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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, 2016. 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, 2016, 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)

	2016	2015
Investments	\$ 35,826	\$ 35,989
Total assets	35,826	35,989
Bonds, net	342,410	348,696
Total liabilities	343,738	350,009
Restricted net position	35,650	35,821
Unrestricted net position (deficit)	(343,562)	(349,838)
Total net position (deficit)	\$ (307,912)	\$ (314,017)

There were no significant changes in total assets for the year ended June 30, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total liabilities decreased \$6.3 million primarily as a result of principal paydowns on bonds for the year ended June 30, 2016.

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, 2016. There were no significant changes in restricted net position.

CONDENSED STATEMENT OF ACTIVITIES

(in thousands)

	2016	2015
Tobacco settlement revenue	\$ 24,315	\$ 23,340
Total revenue	24,433	23,386
Interest expense	18,256	18,363
Total expenses	18,328	18,525
Excess of revenues over expenses	6,105	4,861
Changes in net position	\$ 6,105	\$ 4,861

Total revenue increased by \$1.0 million for the year ended June 30, 2016, due primarily to an increase in tobacco settlement revenue.

There were no significant changes in total expenses for the year ended June 30, 2016.

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, 2016, NTSC had \$342.4 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 2016 consisted of debt service payments of \$24.5 million of which \$16.5 million represented interest and \$8.0 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016

(in thousands of dollars)

	General Fund	Debt Service Fund	Governmental Funds Balance Sheet Total	Adjustments*	Statement of Net Position Total
ASSETS					
Investments	\$ 176	\$ 35,650	\$ 35,826	\$ -	\$ 35,826
Interest receivable	-	-	-	-	-
Total Assets	<u>176</u>	<u>35,650</u>	<u>35,826</u>	<u>-</u>	<u>35,826</u>
LIABILITIES					
Bond interest payable	-	-	-	1,328	1,328
Intergovernmental payable	-	-	-	-	-
Long-term debt:					
Due within one year	-	-	-	13,480	13,480
Due after one year	-	-	-	325,103	325,103
Unamortized bond discount	-	-	-	(6,179)	(6,179)
Accreted value	-	-	-	10,006	10,006
Due to AHFC	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>343,738</u>	<u>343,738</u>
FUND BALANCES					
Fund balances:					
Unassigned	176	-	176		
Restricted for debt service	-	35,650	35,650		
Total Fund Balances	<u>176</u>	<u>35,650</u>	<u>35,826</u>		
Total Liabilities and Fund Balances	<u>\$ 176</u>	<u>\$ 35,650</u>			
NET POSITION					
Restricted for debt service					35,650
Unrestricted (deficit)					(343,562)
Total Net Position (deficit)				<u>\$ (343,738)</u>	<u>\$ (307,912)</u>

***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.	(339,911)
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.	6,179
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.	(10,006)
Net position of governmental activities	<u>\$ (307,912)</u>

See accompanying notes to the financial statements.

NORTHERN TOBACCO SECURITIZATION CORPORATION

EXHIBIT B

(A Component Unit of the State of Alaska)

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

For the Year Ended June 30, 2016

(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	\$ -	\$ 24,315	\$ 24,315	\$ -	\$ 24,315
Investment interest	-	112	112	-	112
Net increase (decrease) in fair value of investments	-	6	6	-	6
Total revenues	<u>-</u>	<u>24,433</u>	<u>24,433</u>	<u>-</u>	<u>24,433</u>
EXPENDITURES/EXPENSES					
Current:					
Insurance and financing	55	-	55	-	55
General and administrative	17	-	17	-	17
(Gain)/loss on extinguishment of bonds	-	-	-	-	-
Debt Service:					
Principal	-	8,000	8,000	(8,000)	-
Interest	-	16,527	16,527	1,729	18,256
Total expenditures/expenses	<u>72</u>	<u>24,527</u>	<u>24,599</u>	<u>(6,271)</u>	<u>18,328</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(72)</u>	<u>(94)</u>	<u>(166)</u>	<u>6,271</u>	<u>6,105</u>
Transfers - internal activities	<u>77</u>	<u>(77)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	5	(171)	(166)	166	-
Change in net position	-	-	-	6,105	6,105
FUND BALANCES and NET POSITION (DEFICIT)					
Beginning of year	171	35,821	35,992	(350,009)	(314,017)
End of year	<u>\$ 176</u>	<u>\$ 35,650</u>	<u>\$ 35,826</u>	<u>\$ (343,738)</u>	<u>\$ (307,912)</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, 2016

(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	\$	(166)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		8,000
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.		-

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.		(1,309)
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.		(405)
Bond interest is reported as an expenditure in the governmental funds when paid. Interest expense is reported in the Statement of Activities when incurred.		(15)

Change in net position of government activities \$ 6,105

See accompanying notes to the financial statements.

Notes to Financial Statements

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Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2016

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.

New Accounting Pronouncements

Governmental Accounting Standards Board Statement 72, Fair Value Measurement and Application, has been implemented for NTSC'S fiscal year 2016. This Statement provides guidance for determining a fair value measurement for financial reporting purposes.

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 \$1,836,000 and in commercial paper of \$33,990,000 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, 2016, as described by nationally recognized statistical rating organizations, are shown below (in thousands).

<u>Investment</u>	<u>Moody's</u>	<u>S & P</u>	<u>Fair Value</u>
Money market funds	---	AAA	\$ 1,836
Commercial Paper	P-1	A-1+	33,990

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, 2016, NTSC had investment balances greater than 5 percent of its total investments with the following issuers (in thousands)

<u>Issuer</u>	<u>Fair Value</u>	<u>Total Portfolio</u>
Allianz Finance Corp	\$ 29,039	81.06 %
Nestle Cap Corp	4,951	13.82
Goldman Sachs	1,836	5.12

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, 2016:

	<u>Investment Fair Value</u>	<u>Modified Duration</u>
Commercial Paper	1,836	0.000
Money market funds	33,990	0.219
Total	<u>\$ 35,826</u>	
Portfolio modified duration		0.208

Notes to Financial Statements

Investment Term

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

NOTE E: LONG-TERM DEBT

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

On August 17, 2006, NTSC issued \$411,988,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2006A, B, and C. These bonds were issued to fully defease the Series 2000 and Series 2001 bonds. Pursuant to the terms of the bond indenture, proceeds from the sale in the amount of \$170,280,000 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% 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 principal and interest that NTSC must pay as of the specific distribution dates in order to avoid a default. Debt service requirements, through 2020 and in five year increments thereafter to maturity, are shown below (in thousands):

	Series 2006 Bonds		
Year Ended June 30	Principal	Interest	Total
2017	13,480	16,159	29,639
2018	4,435	15,535	19,970
2019	4,860	15,330	20,190
2020	4,645	15,105	19,750
2021	5,090	14,890	19,980
2022-2026	30,595	70,493	101,088
2027-2031	41,160	61,983	103,143
2032-2036	54,255	50,367	104,622
2037-2041	71,225	35,323	106,548
2042-2046	108,838	78,502	187,340
	\$ 338,583	\$ 373,687	\$ 712,270

Notes to Financial Statements

The activity for long-term debt for the year ended June 30, 2016, is summarized in the following schedule (in thousands):

	June 30, 2015	Additions	Reductions	June 30, 2016	Due Within One Year
Series 2006 bonds payable	\$ 346,583	\$ -	\$ (8,000)	\$ 338,583	\$ 13,480
Plus: Accreted value	8,697	1,309	-	10,006	-
Less: Discount	(6,584)	-	405	(6,179)	-
Total long-term debt	<u>\$ 348,696</u>	<u>\$ 1,309</u>	<u>\$ (7,595)</u>	<u>\$ 342,410</u>	<u>\$ 13,480</u>

At June 30, 2016, 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 year ended June 30, 2016.

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, 2016 was approximately \$9,000. This amount was included as a portion of General and Administrative Expenditures/Expenses.



MEMORANDUM

DATE: November 30, 2016
TO: Board of Directors
FROM: Staff
RE: Change of Registered Agent

Issue:

The Corporation wishes to designate a new Registered Agent with the State of Alaska. Such action requires authorization by the Corporation's Board of Directors.

Recommendation and requested action:

The Board of Directors is requested to authorize the attached "Statement of Change" form designating the Corporation's new Registered Agent with the State of Alaska.



Northern Tobacco Securitization Corporation

RESOLUTION NO. 2016-03

RESOLUTION OF THE BOARD OF DIRECTORS OF THE NORTHERN TOBACCO SECURITIZATION CORPORATION APPROVING A CHANGE OF REGISTERED AGENT WITH THE STATE OF ALASKA.

RESOLVED, that the Board of Directors of the Northern Tobacco Securitization Corporation hereby approves the "Statement of Change" of Registered Agent with the State of Alaska, a copy of which has been presented to, and is made a part of, the record of this meeting.

DATED this 30th day of November, 2016.

By: _____
Chair



Corporations Section

State Office Building, 333 Willoughby Avenue, 9th Floor
PO Box 110806, Juneau, AK 99811-0806
Phone: (907) 465-2550 • Fax: (907) 465-2974
Email: corporations@alaska.gov
Website: Corporations.Alaska.Gov

Statement of Change

Domestic Non-Profit Corporation (AS 10.20)

- This Statement of Change form for Registered Agents or Registered Agent Address Changes is only for Domestic Non-profit Corporations.
- The Statement of Change will not be filed if the official signing this form does not match an official on record for this entity and/or if your entity's biennial report is not current. To verify your entity information on record, go online to Corporations.Alaska.Gov, *Search Corporations Database*
- Standard processing time for complete and correct filings submitted to this office is approximately 10-15 business days. All filings are reviewed in the date order they are received.
- The information you submit is a public record and will be posted on the State's website.

1. Important:	AS 10.20.026-.046
<p>Per AS 10.20.026, each Domestic Non-Profit Corporation shall (must) continuously (without interruption) maintain in this state (Alaska) a registered agent AND a registered office (with an Alaskan physical location and an Alaskan mailing address) for the purpose of a registered agent's statutory requirements to receive service of processes, notices, or demands required or permitted by law to be served upon the non-profit corporation.</p> <p>Failure to meet registered agent requirements could result in involuntary dissolution of the entity's authority to transact business in the State of Alaska. — AS 10.20.325(4),(5)</p> <p>For more registered agent information go to Corporations.Alaska.Gov, <i>Registered Agents FAQs</i>.</p>	

2. Fee:	<input checked="" type="checkbox"/> \$25 Nonrefundable Filing Fee (CORF)	3 AAC 16.050(c)
<p>Mail this form and the non-refundable \$25 filing fee in U.S. dollars to the letterhead address. Make the check or money order payable to the State of Alaska, or use the attached credit card payment form.</p>		

3. Entity Information on Record with the State:	AS 10.20.036(a)(1)
<p>Entity Name: <u>Northern Tobacco Securitization Corporation</u></p>	
<p>Alaska Entity Number: <u>71027D</u></p>	

4. PREVIOUS Registered Agent Information on Record with the State:

AS 10.20.036(a)(2), (4)

PREVIOUS Registered Agent Name: Birch, Horton, Bittner, Inc.

PREVIOUS Registered Agent Addresses:

→ PHYSICAL Address: 1127 W. 7th Ave.City: AnchorageState: AK (mandatory)ZIP Code: 99501→ MAILING Address: 1127 W. 7th Ave.City: AnchorageState: AK (mandatory)ZIP Code: 99501**5. NEW Registered Agent Information to be Updated with the State:**

AS 10.20.036(a)(3), (5)

NEW Registered Agent Name: Gerard Deta

NEW Registered Agent Addresses:

→ PHYSICAL Address: 4300 Boniface ParkwayCity: AnchorageState: AK (mandatory)ZIP Code: 99504→ MAILING Address: P.O. Box 101020City: AnchorageState: AK (mandatory)ZIP Code: 99510**6. Authorization per Alaska Statute:**

AS 10.20.036(a)(6)

The registered agent change was authorized by a resolution duly adopted by the board of directors of this non-profit corporation. Per AS 10.20.131, the non-profit corporation is to keep and make available the record of the resolution.

7. Required Signature:

AS 10.20.036(a)

The Statement of Change must be signed by the corporate president or vice president currently on record. Persons who sign documents filed with the commissioner that are known to the person to be false in material respects are guilty of a class A misdemeanor.

Signature: _____

Date: _____

Printed Name: Bryan Butcher

Title of Authorized Signer:

 President

— or —

 Vice-President



THE STATE
of **ALASKA**
Department of Commerce, Community and Economic Development
Division of Corporations, Business and Professional Licensing

COR

FOR DIVISION USE ONLY

Corporations Section

State Office Building, 333 Willoughby Avenue, 9th Floor
PO Box 110806, Juneau, AK 99811-0806
Phone: (907) 465-2550 • Fax: (907) 465-2974
Email: corporations@alaska.gov
Website: Corporations.Alaska.Gov

Contact Information

- Return this form with your filing
- This information may be used by the Division to assist with processing your attached filings
- This form will not be filed for record, or appear online

Entity Information		Enter your entity information as it appears on this filing.
Entity Name:	Northern Tobacco Securitization Corporation	
AK Entity #:	71027D	

Contact Person		Whom may we contact with any questions or problems with this filing?
Company:	Alaska Housing Finance Corporation	
Contact:	Gerard Deta	
Mailing Address:	Address: P.O. Box 101020	
	City: Anchorage	State: AK ZIP: 99510
Phone:	(907) 330-8343	
Email:	ntsc@ahfc.us	

Document Return Address		Provide an address for the return of your filed documents.
<input checked="" type="checkbox"/> Return my filings to the address provided ABOVE <input type="checkbox"/> Return my filings to this address provided BELOW		
Company:		
Contact:		
Mailing Address:	Address:	
	City:	State: ZIP: