

**EDUCATIONAL ENHANCEMENT FUNDING CORPORATION
A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA
2024 ANNUAL REPORT**

EDUCATIONAL ENHANCEMENT FUNDING CORPORATION
A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA
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For the Year Ended June 30, 2024

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EDUCATIONAL ENHANCEMENT FUNDING CORPORATION

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605-224-9200

CORPORATION DIRECTORS

Thomas W. Graham,
Chairman

Douglas J. Hajek,
Vice Chairman

Tina Van Camp,
Secretary

Julie Bartling

James Breckenridge

Ken Karels

James Lust

James C. Spies

Steve Zellmer

CORPORATION STAFF

Executive Secretary

Donald A. Templeton

CORPORATION COUNSEL

Todd Meierhenry
Danforth & Meierhenry, L.L.P.
Sioux Falls, South Dakota



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RUSSELL A. OLSON
AUDITOR GENERAL

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Kristi Noem
Governor of South Dakota

and

Board of Directors
Educational Enhancement Funding Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Educational Enhancement Funding Corporation (EEFC), a component unit of the State of South Dakota, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the EEFC's basic financial statements, and have issued our report thereon dated September 18, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the EEFC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 EEFC's internal control. Accordingly, we do not express an opinion on the effectiveness of EEFC's 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. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a 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.

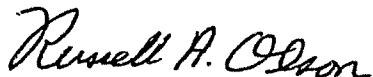
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EEFC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

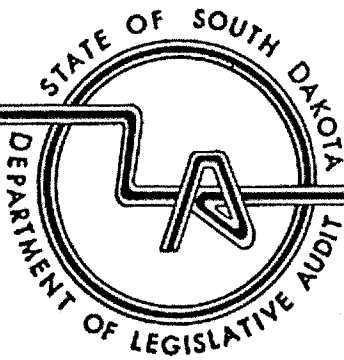
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Russell A. Olson, Auditor General
Pierre, South Dakota

September 18, 2024



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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem
Governor of South Dakota

and

Board of Directors
Educational Enhancement Funding Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Educational Enhancement Funding Corporation (EEFC), a component unit of the State of South Dakota, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the EEFC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the EEFC as of June 30, 2024, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the EEFC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the EEFC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 EEFC's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the EEFC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 9-11 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

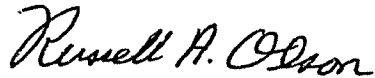
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the listing of officials on page 3 but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2024 on our consideration of the EEFC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the EEFC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EEFC's internal control over financial reporting and compliance.



Russell A. Olson, Auditor General
Pierre, South Dakota

September 18, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2024

This section of the Educational Enhancement Funding Corporation (the "Corporation") annual financial report presents management's discussion and analysis of the Corporation's financial performance during the fiscal year ended June 30, 2024 (FY 2024). This analysis should be read in conjunction with the Independent Auditor's Report, financial statements and notes to the financial statements.

Financial Highlights

- Total assets of the Authority decreased \$155.7 thousand or (.6%).
- Total liabilities of the Authority decreased \$11.0 million or (34.4%).
- Net position of the Authority increased \$10.1 million or 174.9%.
- Cash, cash equivalents and investments of the Authority increased \$17.7 thousand or .1%.
- Deferred outflows decreased \$756.1 thousand or (34.3%).

Financial Statement Elements

Changes in Assets, Liabilities and Net Position
(in thousands of dollars)

	<u>2024</u>	<u>2023</u>	<u>Dollar</u> <u>Change</u>	<u>%</u> <u>Change</u>
Assets				
Cash and cash equivalents	\$ 190.2	\$ 13,257.3	\$ (13,067.1)	(98.6)
Prepaid insurance	10.3	14.0	(3.7)	(26.4)
Investments	13,084.8	-	13,084.8	N/A
Accrued interest	46.4	49.4	(3.0)	(6.1)
Receivable from Participating Manufacturers	<u>10,467.6</u>	<u>10,634.2</u>	<u>(166.6)</u>	<u>(1.6)</u>
Total Assets	23,799.3	23,954.9	(155.6)	(.6)
Deferred Outflows of Resources	1,449.3	2,205.4	(756.1)	(34.3)
Liabilities and Net Position				
Liabilities:				
Accrued interest payable	23.8	32.6	(8.8)	(27.0)
Accounts payable	12.8	-	12.8	N/A
Current bonds payable	10,780.0	10,985.0	(205.0)	(1.9)
Noncurrent bonds payable	<u>10,120.0</u>	<u>20,900.0</u>	<u>(10,780.0)</u>	<u>(51.6)</u>
Total Liabilities	<u>20,936.6</u>	<u>31,917.6</u>	<u>(10,981.0)</u>	<u>(34.4)</u>
Net Position				
Restricted for Debt Service	12,225.2	12,264.7	(39.5)	(.3)
Unrestricted(Deficit)	<u>(7,913.2)</u>	<u>(18,022.0)</u>	<u>10,108.8</u>	<u>56.1</u>
Total Net Position / (Deficit)	4,312.0	(5,757.3)	10,069.3	174.9
Total Liabilities and Net Position	<u>\$ 25,248.6</u>	<u>\$ 26,160.3</u>	<u>\$ (911.7)</u>	<u>(3.5)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024
(continued)

Changes in Net Position (in thousands of dollars)

	<u>2024</u>	<u>2023</u>	<u>Dollar Change</u>	<u>% Change</u>
Revenues:				
Payments from Participating Manufacturers	\$ 20,952.3	\$ 23,371.4	\$ (2,419.1)	(10.4)
Investment earnings	738.8	508.2	230.6	45.4
Total Revenues	<u>21,691.1</u>	<u>23,879.6</u>	<u>(2,188.5)</u>	<u>(9.2)</u>
Expenses:				
General and administrative	81.0	64.8	16.2	25.0
Insurance	39.0	23.5	15.5	66.0
Bond interest	1,138.4	1,186.5	(48.1)	(4.1)
Distributed to State of South Dakota Education Enhancement Trust Fund	<u>10,363.4</u>	<u>11,986.3</u>	<u>(1,622.9)</u>	<u>(13.5)</u>
Total Expenses	<u>11,621.8</u>	<u>13,261.1</u>	<u>(1,639.3)</u>	<u>(12.4)</u>
Change in Net Position	10,069.3	10,618.5	(549.2)	(5.2)
Net Position(Deficit) – Beginning of year	<u>(5,757.3)</u>	<u>(16,375.8)</u>	10,618.5	64.8
Net Position / (Deficit) – End of year	<u>\$ 4,312.0</u>	<u>\$ (5,757.3)</u>	<u>\$ 10,069.3</u>	<u>174.9</u>

Analysis:

Principal paid on bonds for FY-24 was \$11.0 million, a \$400,000 decrease over the previous period. Principal paid decreased because the scheduled FY-24 bond payment was less than the FY-23 bond payment. Payments from Participating Manufacturers for FY-24 were \$20.9 million, a \$2.4 million decrease over the previous period. Payments from Participating Manufacturers decreased due to declining cigarette sales. Interest paid on bonds for FY-24 was \$1.1 million, a \$48 thousand decrease over the previous period. Interest paid decreased due to the declining balance of bonds outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024
(continued)

Debt Administration:

The Corporation issued a total of \$148.5 million in taxable and \$129.5 million in tax-exempt bonds in fiscal year 2003. In fiscal year 2013, the Corporation issued a total of \$123,010,000 in Series 2013A taxable and \$46,635,000 in Series 2013B tax-exempt bonds to current refund the Series 2002A and 2002B, respectively. In fiscal year 2022, the Corporation issued a total of \$54.4 million in taxable bonds to current refund and advance refund the Series 2013A & 2013B, respectively.

Outstanding bonds payable bear interest at rates ranging from 1.245% to 1.495%. There was \$10,985,000 of regularly scheduled bonds redeemed in the Series 2021 during fiscal year 2024.

The Series 2021 bonds are rated "A(sf)" by Kroll Bond Rating Agency, LLC.

More detailed information about the Corporation's debt can be found in Note 3, Long-term Debt.

Overview:

Payments from Participating Manufacturers are the major source of revenue for the Corporation. Future payments are to be used to redeem outstanding bonds.

This report is presented to provide additional information regarding operations of the Corporation and to meet the requirements of GASB Standards.

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EDUCATIONAL ENHANCEMENT FUNDING CORPORATION
A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA
STATEMENT OF NET POSITION
 June 30, 2024

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 189,585
Restricted cash and cash equivalents	659
Investments	902,906
Restricted investments	12,181,898
Prepaid insurance	10,267
Accrued interest receivable	3,696
Restricted accrued interest receivable	42,680
Receivable from Participating Manufacturers	<u>10,467,619</u>
Total current assets	<u>23,799,310</u>
 Total Assets	 <u>23,799,310</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount from refunding of debt	<u>1,449,257</u>
Total deferred outflows of resources	<u>1,449,257</u>
 LIABILITIES	
Current liabilities payable from restricted assets:	
Bonds payable	10,780,000
Accounts payable	12,800
Accrued interest payable	<u>23,792</u>
Total current liabilities	<u>10,816,592</u>
 Non-current liabilities payable from restricted assets:	
Bonds payable	<u>10,120,000</u>
 Total Liabilities	 <u>20,936,592</u>
 NET POSITION	
Restricted for Debt Service	12,225,237
Unrestricted (Deficit)	<u>(7,913,262)</u>
 TOTAL NET POSITION	 <u><u>\$ 4,311,975</u></u>

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL ENHANCEMENT FUNDING CORPORATION
A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2024

OPERATING REVENUES	
Payments from Participating Manufacturers	\$ 20,952,351
Total operating revenues	<u>20,952,351</u>
OPERATING EXPENSES	
General and administrative expenses	81,052
Insurance expense	39,007
Bond interest expense	<u>1,138,408</u>
Total operating expenses	<u>1,258,467</u>
Operating income	<u>19,693,884</u>
NON-OPERATING REVENUES/(EXPENSES)	
Investment income	738,765
Distributed to State of South Dakota Education Enhancement Trust Fund	<u>(10,363,349)</u>
Net non-operating expenses	<u>(9,624,584)</u>
Change in net position	10,069,300
NET POSITION (DEFICIT) – Beginning of year	<u>(5,757,325)</u>
NET POSITION – END OF YEAR	<u>\$ 4,311,975</u>

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL ENHANCEMENT FUNDING CORPORATION
A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2024

Cash flows from operating activities:		
Receipts from Participating Manufacturers	\$ 21,119,013	
Payments for general expenses	<u>(103,550)</u>	
Net cash provided by operating activities		21,015,463
Cash flows from noncapital financing activities:		
Principal payments on bonds	(10,985,000)	
Interest payments on bonds	(391,071)	
Distributed to State of South Dakota Education Enhancement Trust Fund	<u>(10,363,349)</u>	
Net cash used for noncapital financing activities		(21,739,420)
Cash flows from investing activities:		
Receipts from interest income on investments	459,278	
Purchase of investments	(26,173,335)	
Proceeds from sale and maturity of investments	<u>13,371,000</u>	
Net cash used by investing activities		<u>(12,343,057)</u>
Net decrease in cash and cash equivalents during the fiscal year		(13,067,014)
Cash and cash equivalents at beginning of year		<u>13,257,258</u>
Cash and cash equivalents at end of year		<u><u>\$ 190,244</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income		\$ <u>19,693,884</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Interest expense	1,138,408	
Decrease/(increase) in assets:		
Receivable from Participating Manufacturers	166,663	
Prepaid insurance	3,708	
Increase in liabilities:		
Accounts Payable	<u>12,800</u>	
Total adjustments		<u>1,321,579</u>
Net cash provided by operating activities		<u><u>\$ 21,015,463</u></u>

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL ENHANCEMENT FUNDING CORPORATION
A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2024

**Reconciliation of cash and cash equivalents
to the statement of net position**

Cash and cash equivalents	\$ 189,585
Restricted cash and cash equivalents	<u>659</u>
Total cash and cash equivalents reported on the Statement of Net Position	<u>\$ 190,244</u>

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL ENHANCEMENT FUNDING CORPORATION
A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 1 – THE CORPORATION

The Educational Enhancement Funding Corporation (“EEFC”) is a special purpose corporation, organized under the South Dakota Codified Laws (Chapter 5-12). EEFC is an instrumentality of, but separate and apart from the State of South Dakota (the “State”). EEFC is governed by a board of directors that consists of nine members appointed by the Governor. Although legally separate from the State of South Dakota, EEFC is a component unit of the State and, accordingly, is included in the State’s financial statements.

Pursuant to a Purchase and Sale Agreement with the State, the State sold to EEFC all of its future right, title and interest in the Tobacco Settlement Revenues (“TSRs”) under the Master Settlement Agreement (“MSA”). The MSA resolved cigarette smoking-related litigation between the settling states and the Participating Manufacturers (“PMs”), released the PMs from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The purchase price of the State’s future right, title and interest in the TSRs has been financed by the issuance of the Bonds and the Residual Certificate. The Residual Certificate represents the right of the State to receive all amounts required to be distributed after payment of all outstanding bonds and other liabilities of EEFC as set forth in the Trust Indenture. On an annual basis the Trustee and the EEFC calculate the residual amount, if any, to be disbursed to the State of South Dakota Education Enhancement Trust Fund. Pursuant to the resolution EEFC is prohibited from selling additional bonds, other than refunding bonds. The Bonds represent limited obligations of EEFC, payable solely from and secured solely by the pledged TSRs and the pledged amounts. The Bonds are not a debt or liability of the State or of any political subdivision or agency thereof. EEFC has no taxing power.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The EEFC is reported on the accrual basis of accounting. Revenue is recognized in the accounting period in which it is earned and expenses are recognized when they are incurred. The EEFC follows all Governmental Accounting Standards Board (GASB) pronouncements.

Cash and Cash Equivalents. This account includes cash and investments with original maturities of ninety days or less. Cash and cash equivalents reported in the Statement of Cash Flows represent all investments with an original maturity of ninety days or less.

Investments. Investments are reported at fair value. Unrealized gains and losses due to fluctuations in the market value are included in investment income.

Operating and Nonoperating Revenue. The EEFC's single source of operating revenues are the Tobacco Settlement Revenues ("TSRs"). Nonoperating revenue is generated solely by investment earnings. See Note 4 for additional investment disclosure.

Net Position. The Tax Regulatory Agreement provides that certain funds be established to pay debt service payments, residual amounts to South Dakota's Education Enhancement Trust Fund and operating expense. When both restricted and unrestricted resources are available for use, it's the EEFC's policy to use restricted resources first, then unrestricted resources as they are needed. The net position balance of \$4,311,975 at June 30, 2024 reflects a restricted net position as defined by GASB. This balance is comprised of amounts from seven accounts. The unrestricted Operating Account had a net position balance of \$367,459 at June 30, 2024. The unrestricted Collections Account had a net position balance of \$38,900 at June 30, 2024. The unrestricted Special Reserve Subaccount had a net position balance of \$700,096 at June 30, 2024. The restricted Liquidity Reserve Subaccount had a net position balance in excess of the Liquidity Reserve Requirement of \$11,922,863 at June 30, 2024. The restricted Debt Service Account had a net position balance of \$302,374 at June 30, 2024. The unrestricted bond account had a net deficit position balance of (\$9,019,717) at June 30, 2024. Management believes that the present value of the TSR's allocated to EEFC approximates the net deficit position, however, no receivable for future payments from participating manufacturers has been recorded or reported due to the uncertainty of the exact amounts or the timing of future receipts

Tobacco Settlement Revenues. The purchase and sale agreement between the EEFC and the State of South Dakota conveyed the right to all of the Tobacco Settlement Revenues ("TSRs") for the fiscal year ended June 30, 2003 until all of the bonds are redeemed. They are to be deposited with the EEFC's Trustee on its behalf until such time as the bond obligations are fully paid.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* effective for financial statement periods beginning on or after December 15, 2006. This Statement requires the EEFC to recognize the purchase of TSRs from the State of South Dakota as a purchase of a future revenue stream as well as recognize a deferred charge on its Statement of Net Position for any future transaction. However, the Statement permits, but does not require the EEFC to apply the Statement to previous transactions. Application to prior transactions would require restatement with application of the cumulative impact to the beginning net position of the current year reported in the statements. The initial impact of electing to implement GASB 48 for the existing transaction would result in a positive net position at restatement with an annual reduction in net position (or a loss on bond operations each year) until the bonds are fully redeemed. Management believes that restatement would not offer any significant value to the readers of the EEFC financial statements since they are accustomed to the current presentation. Further, management believes that such implementation would limit historical comparability and, therefore its predictive value, so retrospective application of this section of the Statement was not implemented. In this case, GASB 48 provides that the event that results in the recognition of an asset and revenue is the domestic shipment of cigarettes. The EEFC estimates accrued TSRs that derive from sales of cigarettes from January 1, 2024 to June 30, 2024 according to the annual TSRs payment that are based on cigarette sales from the preceding calendar year and historical payment trends. TSRs recognized for 2024 included an accrual of \$10,467,619.

Deferred Outflows of Resources: Deferred outflows of resources represent a consumption of net position by the government that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then.

NOTE 3 – LONG-TERM DEBT

In connection with the purchase of the State’s future right, title and interest in the Tobacco Settlement Revenues (“TSRs”), EEFC issued bonds in an aggregate principal amount of \$278,045,000 on September 24, 2002. On March 14, 2013, EEFC issued The Series 2013A and 2013B bonds in an aggregate principal amount of \$169,645,000 with an average interest rate of 3.96% to current refund \$54,035,000 and \$129,540,000 of outstanding maturities in the EEFC Series 2002A bonds and Series 2002B bonds, which had interest rates of 6.72% and 6.5%, respectively. On September 16, 2021, EEFC issued the Series 2021 bonds in an aggregate principal amount of \$54,370,000 with an average interest rate of .99% to current refund \$9,220,000 and advance refund \$46,635,000 of outstanding maturities within the Series 2013A and Series 2013B issuances, respectively. The net proceeds of approximately \$9,519,829 including other sources of funds and after bond issuance costs, were used to retire the Series 2013A bonds on September 29, 2021. The net proceeds of approximately \$51,160,439 including other sources of funds and after bond issuance costs, were used to purchase U.S. Treasury securities which will provide for all future debt service payments on the defeased Series 2013B bonds.

The EEFC has pledged to bond holders certain accounts established and maintained by the Trustee pursuant to the Trust Indenture. These pledged accounts include the Collections Account (except to the extent that money therein is allocable to the Operating Account or to the Special Reserve Subaccount), the Debt Service Account, and the Liquidity Reserve Subaccount. These accounts include the TSRs, net of amounts allocated to the EEFC for operating purposes and to pay arbitrage rebate. The Operating Account and Special Reserve Subaccount for EEFC are not pledged to bondholders. EEFC applied all TSRs received during fiscal year June 30, 2024 to pay its operating expenses and to the payment of scheduled debt service. A residual amount of \$10,363,349 was distributed to the state of South Dakota’s Education Enhancement Trust Fund. Outstanding bonds payable bear interest at rates ranging from 1.245% to 1.495%. There was \$10,985,000 of regularly scheduled bonds redeemed in the Series 2021 during fiscal year 2024.

The balance of bonds outstanding at year end was:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2025	\$ 10,780,000	\$ 285,505	\$ 11,065,505
2026	<u>10,120,000</u>	<u>151,294</u>	<u>10,271,294</u>
	<u>\$ 20,900,000</u>	<u>\$ 436,799</u>	<u>\$ 21,336,799</u>

The following is a schedule of Bonds Payable as of June 30, 2024:

Bond Series	Maturity Through	Percent Interest Rate	Balance 6/30/23	Issued	Retired	Balance 6/30/2024	Amount Due Within One Year
2021	2026	1.245 – 1.495	\$ 31,885,000	\$ -	\$ 10,985,000	\$ 20,900,000	\$ 10,780,000

NOTE 4 – CASH AND INVESTMENTS

Under the terms of the Master Indenture, the EEFC is permitted to invest in the following investments: direct obligations of the United States of America; direct obligations of FHMLC, FNMA, FHLB or the Federal Farm Credit System; demand and time deposits in or certificates of deposit rated A-1+ by Standard and Poor's; indebtedness or obligations of a state or political subdivision rated by each rating agency in one of its three highest rating categories; commercial or finance company paper with a maturity not exceeding 270 days from the date of issuance and that is rated A-1+ by Standard and Poor's; Securities bearing interest or sold at a discount, that are issued by any corporation incorporated under the laws of the United States of America or any state thereof, which have a maturity date not in excess of 90 days, and are rated A-1+ by Standard and Poor's and provided such investment does not account for more than 20 percent of total investments held; units of taxable or tax-exempt money market funds which funds are regulated investment companies and have been rated by each rating agency in one of its three highest rating categories.

All of the EEFC's cash and investments are held and administered by a bank trust department. Separate accounts are maintained for the required Liquidity Reserve Subaccounts and other purposes as stipulated in the indentures. All investments are held on behalf of the EEFC by the bank as trustee.

For purposes of reporting cash flows, the EEFC considers all highly liquid investments (maturities of three months or less) and all investments with insignificant risk of changes in value because of changes in interest rates to be cash and cash equivalents. Cash equivalents are reported at amortized cost. The balance in cash and cash equivalents as of June 30, 2024 was \$190,244.

Deposits:

Custodial Credit Risk. Custodial credit risk is the risk in the event of a bank failure, the EEFC's deposits may not be returned to it. At June 30, 2024 the EEFC had deposits with a bank trust department of \$190,244 that were in the bank's name.

Credit Risk. The EEFC does not have a formal investment policy with respect to credit risk. At June 30, 2024 \$190,244 was invested in The First American Government Obligation Fund Class D, which was rated AAAM by Standard and Poor's and Aaa-mf by Moody's at June 30, 2024.

Investments:

The EEFC measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

Generally accepted accounting principles also allow the use of Net Asset Value (NAV) to value mutual funds and money market funds. The First American Government Obligation Fund Class D uses the amortized cost method to value its holdings and is allowed to price and transact at a stable \$1.00 NAV.

U.S. Bank Trust Company, N.A., which serves as trustee, uses the pricing services Standard and Poor's Securities Evaluation Incorporated and FT Interactive Data to value investments. These services use market approach pricing which utilizes models and pricing systems as well as mathematical tools and pricing analyst judgement. All investments are priced by these services, which is not quoted in prices in an active market, but rather significant other observable inputs; therefore, the investments are categorized as Level 2.

	<u>Fair Value</u>
U.S. Agencies	\$ <u>13,084,804</u>

Custodial Credit Risk. At June 30, 2024 the following investments were uninsured and unregistered, with the securities held by a bank trust department, but not in EEFC's name.

	<u>Fair Value</u>
U.S. Agencies	\$ <u>13,084,804</u>

Interest Rate Risk. The EEFC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June, 30, 2024 all investments had maturities of less than one year.

Credit Risk. The EEFC does not have a formal investment policy with respect to credit risk. At June 30, 2024 the EEFC's investments consisted of obligations of U.S. Government Agency Investments. The U.S. Government Agency Investments were rated AA+ and Aaa by Standard and Poor's and Moody's, respectively, at June 30, 2024.

Concentration Credit Risk. The EEFC places no limit on the amount the corporation may invest in any one investment. More than 5% of the EEFC's investments are in U.S. Agencies. These investments are 98.6% of the EEFC's total cash and investments.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Contingency 1. The EEFC purchased future Tobacco Settlement Revenues (“TSRs”) from the State of South Dakota by issuing long-term bonds. The future collection of the TSRs will be used to pay the debt service of the EEFC.

NOTE 6 – RISK MANAGEMENT

The EEFC is a member (with four other State of South Dakota Authorities) of Cell 2 of the South Dakota Authority Captive Insurance Company, LLC, which insures EEFC as a result of the Authority’s negligence for covered occurrences and/or wrongful acts as defined in the general liability, employment practices liability, errors and omissions and directors’ and officers’ liability coverage parts. The captive insurance policy has a \$5,000,000 per occurrence limit of liability for general liability (no annual aggregate), with a \$0 deductible/retention. The combined limit of liability, per wrongful act and in the annual aggregate, for employment practices and errors & omissions is \$5,000,000, with a \$25,000 retention per wrongful act. The captive policy limit for directors’ and officers’ liability is \$1,000,000 per wrongful act and in the annual aggregate and the retention for each insuring agreement is \$25,000. EEFC purchased an additional \$4,000,000 per wrongful act and in the annual aggregate of directors’ and officers’ liability that has a \$1,000,000 retention limit.