EDUCATIONAL ENHANCEMENT FUNDING CORPORATION

A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA

2018 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, 2018

EDUCATIONAL ENHANCEMENT FUNDING CORPORATION

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CORPORATION DIRECTORS

Thomas W. Graham,
Chairman

Douglas J. Hajek,
Vice Chairman

James C. Roby,
Secretary

James Breckenridge

Dennis H. Neugebauer

Ken Karels

James C. Spies

Tina Van Camp

Steve Zellmer

CORPORATION STAFF

Executive Secretary

Donald A. Templeton

CORPORATION COUNSEL

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

427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
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MARTIN L. GUINDON, CPA
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 Dennis Daugaard
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, 2018, and the related notes to the financial statements, which collectively comprise the EEFC's basic financial statements, and have issued our report thereon dated October 2, 2018.

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) to determine the 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 the 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.

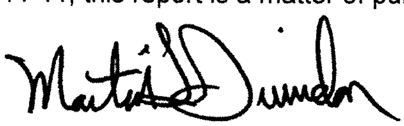
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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.



Martin L. Guindon, CPA
Auditor General

October 2, 2018

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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

Board of Directors
Educational Enhancement Funding Corporation

Report on the Financial Statements

We have audited the accompanying 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, 2018, and the related notes to the financial statements, which collectively comprise the EEFC'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 an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the EEFC as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 8-10 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.

Other Information

The listing of officials on page 3 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018 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, 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 the EEFC's internal control over financial reporting and compliance.

Martin L. Guindon, CPA
Auditor General

October 2, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

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, 2018 (FY 2018). 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 $67.7 thousand or (.2%).
- Total liabilities of the Authority decreased $12.2 million or (11.5%).
- Net position of the Authority increased $11.7 million or 16.6%.
- Cash, cash equivalents and investments of the Authority decreased $116.7 thousand or (52.0%)
- Deferred outflows decreased $413.5 thousand or (10.1%)

Financial Statement Elements

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

	2018	2017	Dollar Change	% Change
Assets				
Cash and cash equivalents	$ 107.8	$ 224.5	$ (116.7)	(52.0)
Investments	20,534.8	20,520.6	14.2	.1
Accrued interest	38.1	18.6	19.5	104.8
Receivable from Participating Manufacturers	10,766.5	10,751.2	15.3	.1
Total Assets	31,447.2	31,514.9	(67.7)	(.2)
Deferred Outflows of Resources	3,687.5	4,101.0	(413.5)	(10.1)
Liabilities and Net Position				
Liabilities:				
Accounts payable	0.0	2.9	(2.9)	(100.0)
Accrued interest payable	315.3	335.9	(20.6)	(6.1)
Current bonds payable, net of unamortized premium	11,535.3	12,135.3	(600.0)	(4.9)
Noncurrent bonds payable, net of unamortized premium	81,784.4	93,319.7	(11,535.3)	(12.4)
Total Liabilities	93,635.0	105,793.8	(12,158.8)	(11.5)
Net Position				
Restricted for Debt Service	19,760.4	19,879.4	(119.0)	(.6)
Unrestricted(Deficit)	(78,260.7)	(90,057.3)	11,796.6	13.1
Total Net Position (Deficit)	(58,500.3)	(70,177.9)	11,677.6	16.6
Total Liabilities and Net Position	$ 35,134.7	$ 35,615.9	$ (481.2)	(1.4)

Changes in Net Position
(in thousands of dollars)

	2018	2017	Dollar Change	% Change
Revenues:				
Payments from Participating Manufacturers	$ 46,015.4	$ 22,814.7	$ 23,200.7	101.7
Investment earnings	257.1	101.6	155.5	153.1
Total Revenues	46,272.5	22,916.3	23,356.4	101.9
Expenses:				
General and administrative	94.6	80.8	13.8	17.1
Insurance	22.9	19.2	3.7	19.3
Bond interest	3,789.0	4,018.2	(229.2)	(5.7)
Distributed to State of South Dakota Education Enhancement Trust Fund	30,688.4	8,225.8	22,462.6	273.1
Total expenses	34,594.9	12,344.0	22,250.9	180.3
Change in Net Position	11,677.6	10,572.3	1,105.6	10.5
Net Position(Deficit) – Beginning of year	(70,177.9)	(80,750.2)	10,572.3	13.1
Net Position(Deficit) – End of year	$ (58,500.3)	$ (70,177.9)	$ 11,677.6	16.6

Analysis:

Principal paid on bonds for FY-18 was $11.5 million, a $.4 million decrease over the previous period. Payments from Participating Manufacturers for FY-18 were $46.0 million, a $23.2 million increase over the previous period. This increase was due to the EEFC settling and receiving prior year disputed payments from the participating manufacturers in the amount of $29.8 million during FY-18. Interest paid on bonds for FY-18 was $3.8 million, a $.2 million decrease over the previous period.

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.

Outstanding bonds payable bear interest at rates ranging from 3.539% to 5%. There was $11,500,000 of regularly scheduled bonds redeemed in the Series 2013A during fiscal year 2018.

The Series 2013A bonds are rated "A" and the Series 2013B bonds are rated "A" and "A-" by Standard and Poor's.

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 Statement No. 34.

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EDUCATIONAL ENHANCEMENT FUNDING CORPORATION
A COMPONENT UNIT OF THE STATE OF SOUTH DAKOTA
STATEMENT OF NET POSITION
June 30, 2018

ASSETS		
Current assets:		
Cash and cash equivalents	$	106,483
Restricted cash and cash equivalents		1,339
Investments		775,723
Restricted investments		19,759,113
Accrued interest receivable		1,573
Restricted accrued interest receivable		36,471
Receivable from Participating Manufacturers		10,766,482
Total current assets		31,447,184
Total Assets		31,447,184
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from refunding of debt		3,687,489
Total deferred outflows of resources		3,687,489
LIABILITIES		
Current liabilities payable from restricted assets:		
Bonds payable – Net of unamortized premiums		11,535,288
Accrued interest payable		315,287
Total current liabilities		11,850,575
Non-current liabilities payable from restricted assets:		
Bonds payable – Net of unamortized premiums		81,784,363
Total Liabilities		93,634,938
NET POSITION		
Restricted for Debt Service		19,760,452
Unrestricted (Deficit)		(78,260,717)
TOTAL NET POSITION (DEFICIT)	$	(58,500,265)

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, 2018

OPERATING REVENUES	
Payments from Participating Manufacturers	$ 46,015,408
Total operating revenues	46,015,408
OPERATING EXPENSES	
General and administrative expenses	94,572
Insurance expense	22,949
Bond interest expense	3,788,988
Total operating expenses	3,906,509
Operating income	42,108,899
NON-OPERATING REVENUES/(EXPENSES)	
Investment earnings	257,102
Distributed to State of South Dakota Education Enhancement Trust Fund	(30,688,404)
Net non-operating revenues/(expenses)	(30,431,302)
Change in net position	11,677,597
NET POSITION (DEFICIT) – Beginning of year	(70,177,862)
NET POSITION (DEFICIT) – END OF YEAR	$ (58,500,265)

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, 2018

Cash flows from operating activities:		
Receipts from Participating Manufacturers	$ 46,000,129	
Payments for general expenses	(120,438)	
Net cash provided by operating activities		45,879,691
Cash flows from noncapital financing activities:		
Principal payments on bonds	(11,500,000)	
Interest payments on bonds	(4,031,388)	
Distributed to State of South Dakota Education Enhancement Trust Fund	(30,688,404)	
Net cash used for noncapital financing activities		(46,219,792)
Cash flows from investing activities:		
Receipts from interest income on investments	182,483	
Purchase of investment securities	(52,689,006)	
Proceeds from sale and maturity of investments	52,729,948	
Net cash provided by investing activities		223,425
Net decrease in cash and cash equivalents during the fiscal year		(116,676)
Cash and cash equivalents at beginning of year		224,498
Cash and cash equivalents at end of year		$ 107,822
Reconciliation of operating income to net cash provided by operating activities		
Operating income		$ 42,108,899
Adjustments to reconcile operating income to net cash provided by operating activities		
Interest expense	3,788,988	
Increase in assets:		
Receivable from Participating Manufacturers	(15,279)	
Decrease in liabilities:		
Accounts payable	(2,917)	
Total adjustments		3,770,792
Net cash provided by operating activities		$ 45,879,691

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, 2018

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

Cash and cash equivalents	$	106,483
Restricted cash and cash equivalents		1,339
Total cash and cash equivalents reported on the Statement of Net Position	$	107,822

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, 2018

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 deficit position balance of ($58,500,265) at June, 30 2018 reflects an unrestricted net deficit position as defined by GASB. This balance is comprised of amounts from seven accounts. The unrestricted Operating Account had a net position balance of $294,609 at June 30, 2018. The unrestricted Collections Account had a net position balance of $6,130 at June 30, 2018. The unrestricted Special Reserve Subaccount had a net position balance of $583,040 at June 30, 2018. The restricted Liquidity Reserve Subaccount had a net position balance equal to the Liquidity Reserve Requirement of $17,878,203 at June 30, 2018. The restricted Debt Service Account had a net position balance of $1,918,228 at June 30, 2018. The restricted Residual Account had a net position balance of $491 at June 30, 2018. The unrestricted bond account had a net deficit position balance of ($79,180,966) at June 30, 2018. 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 statements 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, 2018 to June 30, 2018 according to the annual TSRs payment that are based on cigarette sales from the preceding calendar year and historical payment trends. TSRs recognized for 2018 included an accrual of $10,766,482.

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.

The EEFC has pledged to bondholders 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, 2018 to pay its operating expenses and to the payment of scheduled debt service. A residual amount of $30,688,404 was distributed to the state of South Dakota's Education Enhancement Trust Fund. Outstanding bonds payable bear interest at rates ranging from 3.539% to 5.00%. There was $11,500,000 of regularly scheduled bonds redeemed in the Series 2013A during fiscal year 2018. The balance of bonds outstanding at year end was:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2019	$ 10,900,000	$ 3,783,448	$ 14,683,448
2020	10,600,000	3,397,697	13,997,697
2021	10,300,000	3,022,563	13,322,563
2022	9,220,000	2,658,046	11,878,046
2023	9,970,000	2,331,750	12,301,750
2024-2027	36,665,000	4,368,000	41,033,000
	$ 87,655,000	$ 19,561,504	$ 107,216,504

The following is a schedule of Bonds Payable as of June 30, 2018:

Bond Series	Maturity Through	Percent Interest Rate	Balance 6/30/17	Retired	Balance 6/30/18	Amount Due Within One Year
2013A	2022	3.539	$ 52,520,000	$ 11,500,000	$ 41,020,000	$ 10,900,000
2013B	2027	5.00	46,635,000	-	46,635,000	-
Total			$ 99,155,000	$ 11,500,000	$ 87,655,000	$ 10,900,000
	Unamortized bond premiums				5,664,651	
	Bonds payable, net of premium				$ 93,319,651	

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 exceed 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 fair value. The balance in cash and cash equivalents as of June 30, 2018 was $107,822 at fair value.

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, 2018 the EEFC had insured deposits with a bank trust department of $107,822 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, 2018 $107,822 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, 2018.

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.

U.S. Bank, 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 prices in an active market, but rather significant other observable inputs; therefore, the investments are categorized as Level 2.

	Fair Value
U.S Treasury Notes	$ 20,535,055

Custodial Credit Risk. At June 30, 2018 the following investments were uninsured and unregistered, with the securities held by a bank trust department, but not in EEFC's name.

	Fair Value
U.S. Treasury Notes	$ 20,535,055

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, 2018 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, 2018 the EEFC's investments consisted of obligations of U.S. Government Treasury Investments. The U.S. Government Treasury Investments were rated AA+ and Aaa by Standard and Poor's and Moody's, respectively, at June 30, 2018.

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. Treasury Notes. These investments are 99.5% of the EEFC's total 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.

Contingency 2. South Dakota settled with the Participating Manufacturers (PMs) in a fashion that carries a number of sliding scales and contingencies for payment, which can modify the payments from 2019 up to 2022. South Dakota will not know how years 2019 through 2022 will be treated until the IRS makes a tax deductibility determination on the payments made by the PMs.

The provisions of the Settlement Agreement applicable to years after 2017 will be applicable to the South Dakota if by December 31, 2020 the PMs receive a ruling from the Internal Revenue Service, satisfactory to the PMs in their sole discretion, or the PMs otherwise in their discretion determine, that the agreement to such provisions between a PM and a New-Joining State would not affect the deductibility of MSA payments for federal income tax purposes (the "Deductibility Condition"). Unless the Deductibility Condition is satisfied by December 31, 2020, the provisions of the Settlement Agreement applicable to years after 2017 will not apply to South Dakota.

If the Deductibility Condition is satisfied, the years 2018-2019 would be treated as "transition years," including if the Deductibility Condition is satisfied after any of those years. For these transition years: the PMs would receive 25% of South Dakota's respective allocable shares of the 2018-2019 NPM Adjustments, with the New-Joining States receiving the balance (75%); the adjustment under Section V.B of the Settlement Agreement would be applicable; but the adjustment under Section V.C of the Settlement Agreement would not be applicable.

If the Deductibility Condition is satisfied, South Dakota shall be entitled to have, at its option, up to three additional years (2020, 2021, and 2022) treated as transition years. For any such transition year or years: the PMs would receive 25% of South Dakota's allocable share of the NPM Adjustments for the transition year or years, with South Dakota receiving the balance (75%).

NOTE 6 – RISK MANAGEMENT

The EEFC is a member of the South Dakota Authority Captive Insurance Company, LLC with five other Authorities in the State of South Dakota to reduce costs of general liability, employment practices liability and directors' and officers' liability insurance. The captive insurance has a liability limit of $5,000,000 and a $0 retention limit on general liability claims and a $25,000 retention limit on all other claims.