

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**AUDIT REPORT**

**Fiscal Year Ended June 30, 2015**



**State of South Dakota  
Department of Legislative Audit  
427 South Chapelle  
% 500 East Capitol  
Pierre, SD 57501-5070**

SOUTH DAKOTA SCIENCE & TECHNOLOGY AUTHORITY  
AUTHORITY OFFICIALS  
June 30, 2015

Board of Directors:

Casey Peterson, Chairman  
Dana Dykhouse, Vice-Chairman  
Ron Wheeler, Vice-Chairman  
Pat Lebrun, Secretary/Treasurer  
Thomas C. Adam, Member  
Dr. Ani Aprahamian, Member  
Paul Christen, Member  
Dr. Heather Wilson, Ex-Officio Member

Executive Director:

Michael Headley

Chief Financial Officer:

Nancy Geary



SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY  
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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  
South Dakota Science and Technology Authority

We have audited, 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, the financial statements of the South Dakota Science and Technology Authority (Authority) a business-type activities component unit of the State of South Dakota, as of and for the year then ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is 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.

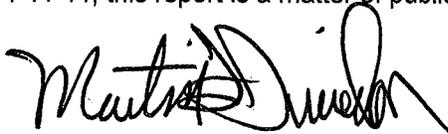
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Authority's financial statements are free of 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 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 Authority'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

December 8, 2015



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable Dennis Daugaard  
Governor of South Dakota

and

Board of Directors  
South Dakota Science and Technology Authority

Report on Compliance for Each Major Federal Program

We have audited the South Dakota Science and Technology Authority's (Authority), a business-type activities component unit of the State of South Dakota, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015. The Authority's major federal programs are identified for the State of South Dakota Single Audit and included in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

*Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Authority's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the South Dakota Science and Technology Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### Report on Internal Control Over Compliance

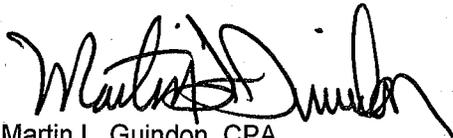
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

### Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.



Martin L. Guindon, CPA  
Auditor General

December 8, 2015

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY  
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

**SCHEDULE OF PRIOR AUDIT FINDINGS**

**Prior Federal Audit Findings:**

The prior audit report contained no written audit findings.

**Prior (Other) Audit Findings:**

The prior audit report contained no written audit findings.

**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**

**Summary of the Independent Auditor's Results:**

***Financial Statements***

- a. An unmodified opinion was issued on the financial statements of each opinion unit.
- b. No material weaknesses or significant deficiencies were disclosed by our audit of the financial statements.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

***Federal Awards***

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
- f. The federal awards tested as major programs were:
  - 1. SURF (Sanford Underground Research Facility) Operations Support 81.6994297
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$7,000,000 as determined for the State of South Dakota Single Audit for fiscal year 2015.
- h. The South Dakota Science and Technology Authority as a component unit of the State of South Dakota did not qualify as a low-risk auditee.

**Current Federal Audit Findings:**

There are no written current federal compliance audit findings to report.

**Current (Other) Audit Findings:**

There are no written current other audit findings to report.



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AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard  
Governor of South Dakota

and

Board of Directors  
South Dakota Science and Technology Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Science and Technology Authority (Authority), a business-type activities component unit of the State of South Dakota, as of and for the year then ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority'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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 Authority'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 Authority'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standards

As described in Note 5 to the financial statements, the Authority implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. As discussed in Note 5 to the financial statements, the implementation of these standards resulted in a restatement of beginning net position. Our opinion is not modified with respect to this matter.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 9 through 16, the Schedule of Proportionate Share of the Net Pension Liability (Asset) on page 33 and the Schedule of Employer Contributions on page 34 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.

*Supplementary and Other Information*

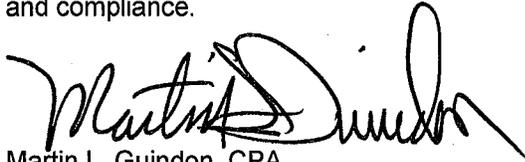
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Operating Expenses and the Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Expenses and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Expenses and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The listing of the Authority Officials 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 December 8, 2015 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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 Authority's internal control over financial reporting and compliance.



Martin L. Guindon, CPA  
Auditor General

December 8, 2015

## **SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015**

This section of the South Dakota Science and Technology Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2015 (FY 2015). This analysis should be read in conjunction with the financial statements and notes to the financial statements.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purpose of converting its acquired Homestake Mine property into an underground science and engineering laboratory. The property was donated to the Authority by Barrick Gold in May 2006.

The activity of the Authority is accounted for as a proprietary fund type. The Authority is a component unit of the State of South Dakota and its financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

Included in the financial statements presented is a current year comparison to prior year balance sheet summary, revenue and expense summary, and capital assets. Further reports reflect current year detailed statement of net position, statement of revenue, expense and changes in net position, cash flow, schedule of operating expenses, and schedule of expenditures of federal awards. Comparisons of current year to prior year are important to display increases and decreases in various elements of the financial reports for the Authority. Current year detailed reports provide significant detail for statement of net position, revenues, expenses and cash flows for the Authority.

## SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2015

#### FINANCIAL HIGHLIGHTS:

- Total assets at year-end decreased to \$119,646,133.
- Current and Other Assets decreased by \$6,509,433, primarily due to the expenditure of funds from the Sanford Gift accounts being held by the State Treasurer on behalf of the Authority.
- Capital Assets increased by \$14,221,450. Page 13 details the major capital asset additions. Furthermore, page 24 summarizes the changes in capital assets by major categories. Notable increases primarily affected the Improvements in Progress designation including the Ross Shaft rehabilitation project as well as other projects for education and science. Also included in this classification is the capital lease through AmWest, Inc. – Hydro Resources that was renegotiated in January 2013 from an operating lease.
- Net Pension Asset is a new classification included in our Statement of Net Position. The Governmental Accounting Standards Board (GASB) recently approved new statements that require governmental entities to disclose pension information concerning our retirement plan in the South Dakota Retirement System (SDRS). (GASB) standards allow entities to use a pension measurement date up to one year prior to the entities reporting period. Therefore, the Authority is using a June 30, 2014 pension measurement date for our fiscal year end June 30, 2015 statements. Requirements include reporting our proportionate share of the collective net pension asset as of the beginning of the initial period of implementation – June 30, 2014. Our proportionate share equals \$3,809,785.
- Deferred Outflows of Resources is also related to the new (GASB) statements concerning pensions. The amounts recorded relate to our proportionate share of the differences between expected and actual experience in pension earnings along with the Authority's pension contributions made subsequent to June 30, 2014. The total Deferred Outflows of Resources equals \$3,366,693.
- Total liabilities at year end increased to \$4,748,902, primarily due to an increase in accounts payable. Outstanding invoices included amounts owed to engineering and construction firms for the Sanford Lab Visitor Center being built at the site previously occupied by the Homestake Visitor Center. Increases were also noted for an engineering firm charged with the ongoing Long Baseline Neutrino Facility (LBNF) project. Additional amounts were owed for construction expenses related to the Jonas Science Building renovations and the CASPAR/BHSU underground facility development. Yet, Long-Term Liabilities decreased for the capital lease liability on the deep pump system.
- Deferred Inflows of Resources relates to the new (GASB) requirements for pension reporting. The amount recorded relates to our portion of the difference between projected and actual investment earnings. Our portion equals \$4,412,373.
- Total restricted net position decreased to \$22,369,484, due to the expenditure of funds received from Mr. Sanford that is held by the State Treasurer on behalf of the Authority. Funds were expended on projects authorized by the Fourth Amendment to the Homestake Gift Agreement including the new Sanford Lab Visitor Center and for additional underground laboratory space. However, restricted net position did increase for the Net Pension Asset along with Deferred Outflows and Deferred Inflows related to pension balance. These funds are restricted for pension benefits.
- Unrestricted net position decreased to \$4,350,993.
- Total net position at year end increased to \$113,851,551.
- Charges for Services increased slightly to \$207,254. Revenue from Homestake increased slightly due to an increase in water being treated and discharged for Homestake.
- Operating Grants increased to \$19,373,689. The revenue received in this classification includes \$14,200,335 received from Lawrence Berkeley National Laboratory, \$4,520,472 from Fermi National Lab, and \$652,882 from the SD Governor's Office of Economic Development (GOED) and various smaller universities.
- Pension Related Revenue is our proportionate share of pension revenue from South Dakota Retirement System (SDRS) at \$160,924.
- Capital Grants and Contributions increased to \$7,194,368 (up \$5,164,368 from the prior year). The revenue received in this category includes \$3,950,000 from the State Legislature for the Ross Shaft rehabilitation project, \$2,000,000 from GOED for the Sanford Lab Visitor Center and Jonas Science Building renovations, \$595,000 received from private contributions, fixed assets valued at \$454,308 received from SD School of Mines & Technology, as well as \$195,060 received from Black Hills State University (BHSU) reserved for the BHSU underground campus.
- Investment Earnings decreased to \$216,435 compared to \$510,356 in the previous year primarily due to lower cash being held by the State Treasurer on behalf of the Authority. Thus a lower amount of funds being invested.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**JUNE 30, 2015**

**FINANCIAL HIGHLIGHTS (Continued)**

- Total expenses for the Authority were \$21,046,711, which represents a small increase of 2.47% from the previous year. Of this \$21,046,711 the major expenses were contractual services – 42.6 percent, personal services – 41.4%, and supplies, materials, and operating expenses – 6.1 percent.
- A Prior Period Adjustment of \$2,045,761 was recorded for the implementation of recent GASB pronouncements since the Authority is using a June 30, 2014 pension measurement date for our fiscal year end June 30, 2015 statements. This includes our proportionate share of the collective net pension asset as of the beginning of the initial period of implementation – June 30, 2014 along with the contributions the Authority made to the pension plan between the measurement date beginning period and the beginning of the Authority's current fiscal year.
- Net position increased by \$6,200,983 for fiscal year 2015.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2015**

**FINANCIAL STATEMENT ELEMENTS:**

**NET POSITION**

	2015	2014	Dollar Change	Percent Change
Current and Other Assets	\$ 28,183,753	\$ 34,693,186	\$ (6,509,433)	-18.76%
Capital Assets	87,652,595	73,431,145	14,221,450	19.37%
Net Pension Asset	3,809,785	-	3,809,785	100.00%
<b>Total Assets</b>	<b>119,646,133</b>	<b>108,124,331</b>	<b>11,521,802</b>	<b>10.66%</b>
Pension Related Deferred Outflows	3,366,693	-	3,366,693	100.00%
<b>Total Deferred Outflows of Resources</b>	<b>3,366,693</b>	<b>-</b>	<b>3,366,693</b>	<b>100.00%</b>
Long-Term Liabilities Outstanding	686,728	747,623	(60,895)	-8.15%
Other Liabilities	4,062,174	1,771,901	2,290,273	129.26%
<b>Total Liabilities</b>	<b>4,748,902</b>	<b>2,519,524</b>	<b>2,229,378</b>	<b>88.48%</b>
Pension Related Deferred Inflows	4,412,373	-	4,412,373	100.00%
<b>Total Deferred Inflows of Resources</b>	<b>4,412,373</b>	<b>-</b>	<b>4,412,373</b>	<b>100.00%</b>
<b>Net Position:</b>				
Net Investment in Capital Assets	87,131,074	72,795,253	14,335,821	19.69%
Restricted	22,369,484	27,206,266	(4,836,782)	-17.78%
Unrestricted	4,350,993	5,603,288	(1,252,295)	-22.35%
<b>Total Net Position</b>	<b>\$ 113,851,551</b>	<b>\$ 105,604,807</b>	<b>\$ 8,246,744</b>	<b>7.81%</b>

**CHANGE IN NET POSITION**

	2015	2014	Dollar Change	Percent Change
<b>Revenues</b>				
Program Revenues:				
Charges for Services	\$ 207,254	\$ 178,008	\$ 29,246	16.43%
Operating Grants	19,373,689	16,004,934	3,368,755	21.05%
Miscellaneous	95,024	109,249	(14,225)	-13.02%
Pension Related Revenue	160,924	-	160,924	100.00%
Capital Grants and Contributions	7,194,368	2,030,000	5,164,368	254.40%
General Revenues:				
Investment Earnings	216,435	510,356	(293,921)	-57.59%
<b>Total Revenue</b>	<b>27,247,694</b>	<b>18,832,547</b>	<b>8,415,147</b>	<b>44.68%</b>
Program Expenses:				
Science and Technology Authority	21,046,711	20,539,376	507,335	2.47%
<b>Total Expense</b>	<b>21,046,711</b>	<b>20,539,376</b>	<b>507,335</b>	<b>2.47%</b>
Change in Net Position	6,200,983	(1,706,829)	7,907,812	463.30%
Prior Period Adjustment	2,045,761	-	2,045,761	100.00%
Net Position-Beginning	105,604,807	107,311,636	(1,706,829)	-1.59%
<b>Net Position-Ending</b>	<b>\$ 113,851,551</b>	<b>\$ 105,604,807</b>	<b>\$ 8,246,744</b>	<b>7.81%</b>

By June 30, 2015, the Authority had invested \$87,652,595 in a broad range of capital assets, including computer equipment, land, buildings, improvements to infrastructure and the underground, and various machinery and equipment. \$20,551,152 of this \$87,652,595 (approximately 23% of this total value) was donated by Barrick Gold. This amount represents a net increase (including additions and deductions) of \$14,221,450, or 19.37 percent, over the last year.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**JUNE 30, 2015**

**CAPITAL ASSETS (Net of Depreciation)**

	2015	2014	Change
Improvements	\$ 29,745,184	\$ 30,618,184	\$ (873,000)
Underground	17,250,828	17,055,422	195,405
Buildings	5,761,452	5,907,205	(145,753)
Computer Equipment	59,147	17,147	42,000
Equipment	7,332,534	6,993,791	338,744
Construction in Progress	24,336,743	9,679,529	14,657,214
Land	1,579,298	1,534,038	45,260
Infrastructure	1,447,426	1,486,033	(38,607)
Furniture	39,941	44,931	(4,990)
Archive Material	70,000	70,000	-
Auto	30,043	24,865	5,178
<b>Total Capital Assets</b>	<b>\$ 87,652,596</b>	<b>\$ 73,431,145</b>	<b>\$ 14,221,451</b>

This year's major capital asset additions included:

*Purchased Capital Assets:*

Computer Servers/Storage Arrays	\$ 89,008
2009 Chevy G3500 Passenger Van	16,900
Davis Campus Dehumidification System	508,965
Water Treatment Plant Mix Tank	110,642
Yates Work Platform	30,419
JLG T500 Scissor Lift	20,470
Concrete Bucket & Cement Hopper	36,705
HVAC Unit	17,359

*Capital Assets Transferred from State:*

Yates Rope Dog System	227,217
Robotic Shot Tech Arm System	171,390
Mini Track Loader	22,546
IT Generator	26,208
(2) Kubota Utility RTV's	23,085
Topcon GOT Data Collector/Micro1000 Data Loggers	25,260
Vertical Diesel Symo Power Unit	14,023
HD Video Conferencing System with Camera	13,990

*Improvements (Current Year Additions):*

Underground Mitigation Improvements	163,874
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*Improvements in Progress (Current Year Additions):*

Ross Shaft Rehabilitation	6,331,306
CASPAR Experiment Development	668,419
CASPAR Facility Development	2,356,854
BHSU Jonas Science Building Renovations	1,383,791
Sanford Lab Homestake Visitor Center	4,460,206

# SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2015

### LONG-TERM DEBT

At the year-end, the Authority had \$686,728 in other long-term obligations. This is a decrease of 8.15 percent as shown below.

	2015	2014	Total Dollar Change	Total Percentage Change
Compensated Absences	\$ 342,574	\$ 284,439	\$ 58,135	20.44%
Capital Acquisition Lease	344,154	463,184	(119,030)	-25.70%
	<u>\$ 686,728</u>	<u>\$ 747,623</u>	<u>\$ (60,895)</u>	<u>-8.15%</u>

- (1) The Authority is liable for the accrued vacation leave payable to all full-time employees. In addition, the Authority is liable for a portion of the earned sick leave of employees who have been employed for seven consecutive years. The increase is due to an increase in number of employees and the corresponding amount of leave accumulated and outstanding at the end of the year. Additionally a prior operating lease was renegotiated resulting in the conversion to a capital lease. Note (4) Long-Term Debt in the Notes to Financial Statements on page 25 details this capital lease.

### ECONOMIC FACTORS

- After the Homestake Mine site was selected by the National Science Foundation (NSF) on July 10, 2007, as the preferred site for the proposed national Deep Underground Science and Engineering Laboratory (DUSEL), Lawrence Berkeley National Laboratory and the South Dakota Science and Technology Authority negotiated a Memorandum of Understanding (MOU). This MOU outlined collaborative activities that would be necessary to carry out the technical design development program agreement to develop the former Homestake Mine into the DUSEL.
- The DUSEL Design Team's proposal for re-entry to continue to the 7400' level had been rejected by the National Science Foundation due to the costs involved. Thus the DUSEL (Deep Underground Science and Engineering Laboratory) concept was rejected. The current vision of the Department of Energy (DOE) proposes science labs at the 800' level and at the 4850' level in the excavated Davis Campus close to the Yates Shaft. The design team has adopted the evolving vision of Lawrence Berkeley National Laboratory (LBNL) and the DOE into the Sanford Underground Research Facility (SURF). A report released from the Particle Physics Project Prioritization Panel (P5) in May 2014, outlined the 10-year strategic plan for high-energy physics in the United States. The report provides strong support for science programs envisioned for (SURF) including research into neutrinos and dark matter, both of which are being researched at Sanford Lab. This panel formally advises both the DOE Office of Science and NSF on support for physics. We expect this report to play a key role in the federal government funding process for years to come. The Authority is better secured to receive continued funding for Operations in the future.
- The Authority's Board of Directors (with additions throughout the year) approved a capital budget for fiscal year 2015 of \$18,566,715 towards the Ross Shaft rehabilitation project, Yates Shaft improvements, underground hazard mitigation projects, as well as other capital projects. Additional projects included experiment development for the Compact Accelerator System for Performing Astrophysical Research (CASPAR), as well as facility development for (CASPAR) and Black Hills State University on the 4850-foot level. Further projects included the Black Hills State University Jonas Science Building renovation and design and construction of the Sanford Lab Visitor Center (SLVC) located above the Open Cut in Lead. Actual expenditures for the year totaled \$16,044,227 as several of these projects approved funding extend into fiscal year 2016. Funding for these projects had been designated primarily from the Sanford funds including a portion of Gift No. 2. The Fourth Amendment to the Homestake Gift Agreement that was signed in May 2013, whereby the Authority may expend up to \$7,000,000 on three projects related to science education facilities including the Sanford Lab Visitor Center. It was also agreed that any part of Gift No. 2 not used for the above projects could be used for additional

## SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

#### ECONOMIC FACTORS (Continued)

underground laboratory space and related infrastructure to access and support laboratory spaces through the shaft. Given the construction budget of the (SLVC), the Jonas Science Building renovation costs, and the anticipated cost of the third science education facility project at the Yates Dry Building, it was not possible to undertake the upgrades to the Yates Dry with current funding. This was acknowledged by the signing of the Fifth Amendment to the Homestake Gift Agreement in February 2015. The Fourth Amendment to the Homestake Gift Agreement stipulated that the Authority must raise \$1.5 million from other sources for the Black Hills State University Jonas Science Building renovation project and \$1 million for the Sanford Lab Visitor Center Project. The Authority secured a \$2 million Future Fund grant from the State of South Dakota in October 2013, which was expended in fiscal year 2015. An additional \$500,000 was received in July 2014 from Great Plains Education Foundation to finalize our monetary obligations. Black Hills State University supported the underground facility with \$200,000. Additional donations of \$95,000 were received from other private contributors. Additional funding of \$3,950,000 received in March 2015 from the SD State Legislature was expended on the designated Ross Shaft rehab project. The Authority's Board of Directors endorsed a budget of \$736,569 in favor of Authority supported activities. Actual expenses totaled \$737,599. Thus, the Authority was slightly over budget for the year.

- Additionally, an operations budget of \$13,974,507 had been approved to manage and operate the facility for the federal fiscal year October, 2014 – September 2015. Modifications to Subcontract No. 6994297 were signed with Lawrence Berkeley National Laboratory for this additional DOE funding. Actual expenditures are estimated at \$14,065,301. Thus, the Authority will be slightly over their budget allotment for the federal fiscal year.
- Further funding was received in fiscal year 2015 through LBNL in support of various small projects including the LUX (Large Underground Xenon) experiment. This award reimbursed the Authority for expenses incurred in support of the LUX for various materials and supplies as well as a percentage of the salaries of the Design Team members, for their project management skills essential to the work being performed. One other small subcontract supplied further funding to the Authority. Included was support for the G2-LZ (Generation 2 LUX-Zeplin) investigations.
- In late 2012, the DOE approved the Long Baseline Neutrino Experiment (LBNE) to proceed with preliminary designs to construct a large detector at SURF. Contracts have been executed with Fermi National Accelerator Laboratory (FNAL) for these efforts. Funds were received for professional engineering management services for design and construction as well as efforts supporting the National Environmental Policy Act (NEPA) process and required environmental assessment. Other contracts added support for Phase 2 - Geotechnical Exploration for LBNE at SURF as well as preliminary engineering design of a railveyor system for transporting excavated rock from the underground. Additional support was received for Excavation and Preliminary Design, Building/Site Infrastructure, as well as funding for international support. In October 2014, as part of the internationalization effort, a group of physicists and engineers from the Long Baseline Neutrino Oscillation (LBNO) collaboration in Europe visited SURF. Presentations were made to demonstrate the capabilities of the SURF facility. The Sanford Lab was named to remain the host for the (LBNE) related detectors. After further meetings, the (LBNE) collaboration officially dissolved and transferred all responsibilities to a new collaboration referred to as the Long Baseline Neutrino Facility (LBNF) consisting of United States and International support. The (LBNF) and the associated Deep Underground Neutrino Experiment (DUNE) will send neutrinos through the earth from Fermilab in Batavia, Illinois to SURF here in Lead, S.D. This will be the first truly international megascience project hosted in the United States. DOE support continues into fiscal year 2016 for the (LBNF) project.
- Additional funding was received during the fiscal year from various institutions including Case Western University, University of North Carolina, and the University of Minnesota. Funds were received at SURF to support expenditures related to a cryocooler design for the LZ (LUX-Zeplin) experiment, support for the Majorana experiment located at the 4850-foot level Davis Campus, as well as the development of Deep Underground Gravity Laboratories (DUGL) on three underground levels. Support continues in fiscal year 2016 from all institutions except Case Western University.

## **SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

**JUNE 30, 2015**

#### **ECONOMIC FACTORS (Continued)**

- A Memorandum of Understanding (MOU) was signed in November 2014 between the Authority and a commercial organization – Xilinx, Inc. to establish an experiment located near the Davis Campus. Their testing measures failure rates and modes in electronic chips. We are charging them for lab space, experiment access fees, and SURF scientific support. This agreement will continue into fiscal year 2016.
- The Authority's fiscal year 2016 capital budget provides for spending \$12,215,257. A portion of this budget was previously approved in fiscal year 2015 but was not spent. Projects include continuing the Ross Shaft rehabilitation project, concluding the (CASPAR) experiment development and facility development on the 4850-foot level as well as the underground facility for Black Hills State University. Concluding the Black Hills State University Jonas Science Building renovation and the construction of the Sanford Lab Visitor Center in Lead are both on the near term horizon. Funding remains for these projects primarily from the Sanford funds including a portion of Gift No. 2. New projects include surface and underground upgrades for the future G2-LZ (Generation 2 LUX-Zeplin) experiment that will be located in the Davis Campus, as well as the procurement of xenon for the LZ experiment. Funding for the LZ projects will be facilitated through a letter agreement with the Governor's Office of Economic Development (GOED) for \$6,000,000 along with borrowing funds from private investors. On September 1, 2015, the South Dakota Community Foundation signed a letter of intent to loan the Authority \$2,000,000 towards to purchase of xenon. The Authority's Board of Directors also approved a budget of \$756,146 in favor of Authority supported activities.
- A Letter of Agreement dated February 24, 2014 between the Authority and Black Hills State University (BHSU) provides up to \$300,000 per year for three years from the Authority to BHSU to administer the Sanford Science Education Center. Matching funds of \$150,000 per year by BHSU was documented. Funding for this agreement originated from a Letter of Agreement #1524 between the SD Governor's Office of Economic Development (GOED) and the Authority. The full period of performance extends from June 2014 through May 2017. The first \$300,000 from the Governor's office was received in September 2014 and was extended to BHSU on a reimbursement schedule. Year two funding of \$300,000 was received from GOED in July 2015. Additional support of \$125,000 for education programs and the Sanford Science Education Center was received from Great Plains Education Foundation in August 2015.
- Additionally, an operations budget of \$13,984,422 has been submitted for approval to manage and operate the facility for the federal fiscal year October, 2015 – September 2016. \$4,257,960 has been added to this request in support of the Ross Shaft rehabilitation for the period of January 2016 through September 2016. Modification No. 33 to Subcontract No. 6994297 has been signed with Lawrence Berkeley National Laboratory extending the subcontract through November 30, 2015. Additional funding was increased to cover expenses until the current budget for funding operations at SURF is approved.
- The Authority is in compliance with all legal and environmental regulations.

#### **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, contact the South Dakota Science and Technology Authority, 630 East Summit Street, Lead, SD 57754.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**STATEMENT OF NET POSITION  
JUNE 30, 2015**

**ASSETS**

**Current Assets**

Cash in Local Bank and Petty Cash	\$ 1,233,440
Cash on Deposit with State Treasurer	20,086,611
Accounts Receivable	3,427,534
Interest Receivable	67,115
Prepaid Expenses	382,939
Inventory of Supplies & Warehouse	2,986,114
<b>Total Current Assets</b>	<b>28,183,753</b>

**Noncurrent Assets**

Net Pension Asset	3,809,785
Land	1,579,298
Underground	17,250,828
Improvements in Progress	24,336,743
Buildings, Machinery, Equipment and Infrastructure (Net) (Note 3)	44,485,726
<b>Total Noncurrent Assets</b>	<b>91,462,380</b>

<b>TOTAL ASSETS</b>	<b>119,646,133</b>
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**Deferred Outflows of Resources**

Pension Related Deferred Outflows	3,366,693
<b>Total Deferred Outflows of Resources</b>	<b>3,366,693</b>

**LIABILITIES**

**Current Liabilities**

Accounts Payable	3,155,481
Accrued Wages and Benefits	386,751
Accrued Leave, Benefits, and Capital Acquisition Lease (Note 4)	519,942
<b>Total Current Liabilities</b>	<b>4,062,174</b>

**Long-Term Liabilities**

Accrued Leave, Benefits, and Capital Acquisition Lease Net of Current Portion (Note 4)	686,728
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<b>TOTAL LIABILITIES</b>	<b>4,748,902</b>
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**Deferred Inflows of Resources**

Pension Related Deferred Inflows	4,412,373
<b>Total Deferred Inflows of Resources</b>	<b>4,412,373</b>

**NET POSITION**

Net Investment in Capital Assets	87,131,074
Restricted for:	
Mine Closure	1,378,756
Insurance	-
Indemnification	10,000,000
Interim Lab-Sanford	4,396,549
Sanford Center for Science Education	3,830,074
Pension	2,764,105
Unrestricted Net Position	4,350,993

<b>TOTAL NET POSITION</b>	<b>\$ 113,851,551</b>
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The accompanying notes are an integral part of this statement.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>Operating Revenue</b>	
Charges for Goods and Services	\$ 207,254
Operating Grants	19,373,689
Miscellaneous	95,024
Pension Related Revenue	160,924
<b>Total Operating Revenue</b>	<b>19,836,891</b>
<b>Operating Expenses</b>	
Personal Services	8,716,054
Travel	164,530
Contractual Services	8,973,835
Supplies, Materials and Other Operating Expenses	1,288,714
Amortization Expense	114,371
Depreciation Expense	1,742,887
<b>Total Operating Expenses</b>	<b>21,000,391</b>
<b>Operating Loss</b>	<b>(1,163,500)</b>
<b>Nonoperating Revenues</b>	
Interest Revenue	216,435
Other Expense	(46,320)
<b>Total Nonoperating Revenues</b>	<b>170,115</b>
Loss Before Capital Grants	(993,385)
Capital Grants	7,194,368
<b>Change in Net Position</b>	<b>6,200,983</b>
<b>Net Position -- Beginning of Year, restated</b>	<b>107,650,568</b>
<b>Net Position -- End of Year</b>	<b>\$ 113,851,551</b>

The accompanying notes are an integral part of this statement.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Cash Flows from Operating Activities:**

Other Operating Cash Receipts	\$ 298,769
Cash Receipts from Operating Grants	17,807,355
Cash Payments to Employees for Services	(9,093,013)
Cash Payments to Suppliers of Goods and Services	(9,198,292)
<b>Net Cash Used in Operating Activities</b>	<b>(185,181)</b>

**Cash Flows from Capital and Related Financing Activities:**

Grant Revenue	6,661,739
Purchase of Capital Assets	(14,541,021)
Principal Paid on Capital Debt	(114,371)
Interest Paid on Capital Debt	(15,629)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(8,009,282)</b>

**Cash Flows from Investing Activities:**

Interest Earnings	221,140
<b>Net Cash Provided by Investing Activities</b>	<b>221,140</b>

**Net decrease in Cash and Cash Equivalents** **(7,973,323)**

Cash and Cash Equivalents at Beginning of Year 29,293,374

**Cash and Cash Equivalents at End of Year** **\$ 21,320,051**

**Reconciliation of Operating Loss to Net Cash Used in Operating Activities:**

Operating Loss	\$ (1,163,500)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Depreciation & Amortization Expense	1,857,258
Change in Assets and Liabilities:	
Receivables	(1,569,842)
Prepaid Expenses	191,573
Inventory of Supplies	5,118
Net Pension Asset	(2,318,858)
Decrease(Increase) in Deferred Outflow of Resources - Pension	(2,811,858)
Increase (Decrease) Deferred Inflow of Resources - Pension	4,412,373
Accounts and Other Payables	1,032,094
Accrued Wages Payable	64,191
Accrued Leave Payable	116,270
<b>Net Cash Used in Operating Activities</b>	<b>\$ (185,181)</b>

Continued on next page.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015**

**Cash and Cash Equivalents:**

Cash in Local Bank	\$ 1,233,390
Petty Cash	50
Cash with State Treasurer	20,086,611
<b>Total Cash and Cash Equivalents</b>	<b>\$ 21,320,051</b>

**Non-Cash Capital and Related Financing Activities:**

Loss on Disposal of Assets	515
Donation of Capital Assets From the School of Mines	389,008
Donation of Inventory From the School of Mines	65,300

The accompanying notes are an integral part of this statement.

# **SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

### **(1) Summary of Significant Accounting Policies**

#### **a. Reporting Entity**

The South Dakota Science and Technology Authority (Authority) was created and organized by Chapter 1-16H of the South Dakota Codified Laws. The purposes of the Authority are to foster and facilitate scientific and technology investigation, experimentation, and development by creating a mechanism through which laboratory, experimental and development facilities may be acquired, developed, constructed, maintained, operated, and decommissioned. The initial focus of the Authority is to support the transfer of the Homestake Gold Mine in Lead, South Dakota for development by the research community to become the world's premier Underground Science and Engineering Laboratory; more specifically, the Sanford Underground Research Facility (SURF).

The Authority is a business type component unit of the State of South Dakota (the State). As such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

#### **b. Fund Accounting**

The Authority Fund is accounted for as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### **c. Basis of Accounting**

The Authority Fund follows the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

#### **d. Inventory of Supplies**

Inventory of supplies consists primarily of expendable equipment/supplies, donated and purchased, not yet in service. Donated inventory of supplies are valued at their estimated fair value on date of donation. Purchased equipment values are reported at cost. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use at a later date.

#### **e. Capital Assets**

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

# SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

### (1) Summary of Significant Accounting Policies (Continued)

#### e. Capital Assets (Continued)

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Revenues, Expenses, and Changes in Net Position, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the Statement of Net Position.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Authority's financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and Land Rights	All Land	N/A	N/A
Improvements	\$ 5,000	Straight-line	10-50 yrs.
Infrastructure	5,000	Straight-line	25-50 yrs.
Buildings	5,000	Straight-line	25-50 yrs.
Automobiles, Furniture, Machinery and Equipment	5,000	Straight-line	5-75 yrs.

#### f. Revenue and Expense Classifications

In the Statement of Revenues, Expenses, and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenue or expenses. The Authority's propriety fund distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses of the Authority consist of reimbursement of the costs of operations from Homestake Mining Company and other entities, and the costs of providing those services, including depreciation. All other revenues and expenses are reported as non-operating.

#### g. Cash and Cash Equivalents

Cash includes cash on hand, demand deposits, and participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. The Authority essentially has access to the entire amount of their cash resources on demand. Accordingly, equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

#### h. Equity Classifications

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets, consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net position, consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position, all other net position that do not meet the definition of "restricted" or "net investment in capital assets."

# **SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2015**

### **(1) Summary of Significant Accounting Policies (Concluded)**

#### **i. Application of Net Position**

It is the Authority's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

#### **j. Accrued Leave**

Compensated absences consist of vacation and sick leave earned. The vacation leave is earned by full-time employees at the rate of 4.62 hours per pay period, increasing to 6.16 hours per pay period after 15 years of service. The vacation leave may accumulate only to a maximum of twice the annual accrual. Upon retirement or resignation, only full-time employees with 180 days of continuous service will be paid for accumulated vacation leave. Sick leave is earned at the rate of 4.31 hours per pay period. Upon termination, some employees are entitled to receive compensation for a portion of their sick leave balance. Those with seven years of service or more will receive compensation at the rate of 25 percent of their balance up to a maximum of 480 hours.

#### **k. Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. The Authorities contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

### **(2) Deposits and Investments**

#### **Deposits**

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the audit report of the South Dakota Investment Council, which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. None of the Authority's deposits were exposed to custodial credit risk.

#### **Investments**

In general, SDCL 1-16H-18 permits funds to be invested in (a) direct obligations of, or obligations the principal of the interest on which are fully guaranteed or insured by, the United States of America; or (b) obligations of any solvent insurance company or other corporation or business entity if rated in the two highest classifications established by a standard rating service or insurance companies or a nationally recognized rating agency; or (c) short term discount obligations of the Federal National Mortgage Association; or (d) obligations of any state of the United States or any political subdivision, public instrumentality, or public authority of any state of the United States, which obligations are not callable before the principal is to be paid, are fully secured as to both sufficiency and timely payment by, and payable solely from, obligations described in (a). The Authority did not have any investments as of June 30, 2015.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2015**

**(3) Changes in Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

	Balance June 30, 2014	Reclassified*	Increases	Decreases	Balance June 30, 2015
<b>Business-Type Activities:</b>					
Capital Assets, not Being					
Depreciated:					
Land	\$ 1,534,038	\$ -	\$ 45,260	\$ -	\$ 1,579,298
Underground	17,055,422	31,531	163,875	-	17,250,828
Archive Materials	70,000	-	-	-	70,000
Construction Work in Progress (Note 8)	9,679,529	(555,410)	15,212,624	-	24,336,743
<b>Total Capital Assets, not   Being Depreciated</b>	<b>28,338,989</b>	<b>(523,879)</b>	<b>15,421,759</b>	<b>-</b>	<b>43,236,869</b>
Capital Assets, Being					
Depreciated:					
Equipment Under Capital Lease	883,945	-	-	-	883,945
Automobiles	79,255	-	16,900	9,850	86,305
Buildings	7,223,086	-	-	-	7,223,086
Furniture	74,212	-	-	-	74,212
Computer Equipment	362,465	54,283	34,725	-	451,473
Improvements	33,812,540	-	-	-	33,812,540
Infrastructure	1,658,242	-	-	-	1,658,242
Machinery and Equipment	8,553,255	1,091,401	241,399	65,179	9,820,876
<b>Total Capital Assets, Being   Depreciated</b>	<b>52,647,000</b>	<b>1,145,684</b>	<b>293,024</b>	<b>75,029</b>	<b>54,010,679</b>
<b>Total Capital Assets, Before   Depreciation</b>	<b>80,985,989</b>	<b>621,805</b>	<b>15,714,783</b>	<b>75,029</b>	<b>97,247,548</b>
Less Accumulated Depreciation:					
Equipment Under Capital Lease	248,053	-	114,371	-	362,424
Automobiles	54,390	-	10,737	8,865	56,262
Buildings	1,315,880	-	145,753	-	1,461,633
Computer Equipment	345,318	36,733	10,275	-	392,326
Furniture	29,280	-	4,990	-	34,270
Improvements	3,194,357	-	873,000	-	4,067,357
Infrastructure	172,209	-	38,607	-	210,816
Machinery and Equipment	2,195,357	178,060	659,528	23,080	3,009,865
<b>Total Accumulated   Depreciation</b>	<b>7,554,844</b>	<b>214,793</b>	<b>1,857,261</b>	<b>31,945</b>	<b>9,594,953</b>
<b>Capital Assets, Net</b>	<b>\$ 73,431,145</b>	<b>\$ 407,012</b>	<b>\$13,857,523</b>	<b>\$ 43,084</b>	<b>\$ 87,652,595</b>

\*Reclassifications are due to the Authority performing analysis of assets that were previously grouped in construction work in progress as well as equipment being put into service from inventory of supplies. Various systems or devices were transferred to equipment placed in service as of June 30, 2015.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2015**

**(4) Long-Term Debt**

A summary of changes in long-term debt follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued Compensated Absences	\$ 568,878	\$ 571,931	\$ 455,661	\$ 685,148	\$342,575
Capital Acquisition Lease	635,892	-	114,371	521,521	177,367
	<u>\$ 1,204,770</u>	<u>\$ 571,931</u>	<u>\$ 570,032</u>	<u>\$ 1,206,669</u>	<u>\$519,942</u>

*Capital Acquisition Lease*

The Authority leases a deep level pump system from AmWest, Inc. - Hydro Resources. The lease is due in monthly installments of \$35,000 per month through December 31, 2017. The Interest Rate is 4%. \$521,521

This lease meets the criteria to be called a capital lease; however, since the payments on this lease are funded under the Department of Energy contract through Lawrence Berkeley National Laboratory (LBNL) title will actually vest with LBNL rather than with the Authority. Because this meets the definition of a capital lease, the Authority has recorded the related asset and liability. The asset is being fully depreciated over the term of the lease and will be removed from the books at the end of the lease.

The annual requirements to amortize long-term debt outstanding as of June 30, 2015, are as follows:

	Capital Acquisition Lease	
	Interest	Principal
2016	\$ 17,633	\$ 177,367
2017	10,406	184,594
2018	2,940	159,560
<u>Total</u>	<u>\$ 30,979</u>	<u>\$ 521,521</u>

Total cost and accumulated amortization for the capital lease is as follows:

Gross amount of assets under capital lease	\$ 883,945
Accumulated amortization	362,424
	<u>\$ 521,521</u>

The purchase price at the commencement of the financing (capital acquisition) lease was:

Principal	\$ 883,945
Interest	91,055
Total	<u>\$ 975,000</u>

## SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

#### (5) Prior Period Adjustments

A Prior Period Adjustment was recorded for the implementation of recent GASB pronouncements relevant to our retirement/pension plan, since the Authority is using an allowable June 30, 2014 pension measurement date for our fiscal year end June 30, 2015 statements. This includes our proportionate share of the collective net pension asset as of the beginning of the initial period of implementation – June 30, 2014 along with the contributions the Authority made to the pension plan between the measurement date beginning period and the beginning of the Authority's current fiscal year. Beginning Net Position was restated to reflect the related net pension assets and deferred outflows of resources as of July 1, 2014 in the amount of \$2,045,761.

#### (6) Retirement/Pension Plan

##### **Plan Information:**

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

##### **Benefits Provided:**

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1<sup>st</sup> is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

##### **Contributions:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Authority's contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 was \$557,420, \$554,835, and \$548,269, respectively, equal to the required contributions each year.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2015**

**(6) Retirement/Pension Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:**

At June 30, 2014, SDRS is 107% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Authority as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$56,092,706
Less proportionate share of total pension liability	52,282,921
	-----
Proportionate share of net pension asset	\$ 3,809,785
	=====

At June 30 2015, the Authority reported an asset of \$3,809,785 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the Authority's proportion was .5287996%.

For the year ended June 30, 2015, the Authority's recognized pension expense (revenue) of (\$106,924). At June 30, 2015 the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience.	\$ 322,359	\$
Changes in assumption.	2,486,914	
Net Difference between projected and actual earnings on pension plan investments.		4,412,373
Authority contributions subsequent to the measurement date.	557,420	
	-----	-----
TOTAL	\$ 3,366,693	\$ 4,412,373
	=====	=====

\$557,420 reported as deferred outflow of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension (revenue) as follows:

Year Ended June 30:	
2016	\$ 302,730
2017	302,730
2018	302,730
2019	694,910
	-----
TOTAL	\$ 1,603,100
	=====

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2015**

**(6) Retirement/Pension Plan (Continued)**

**Actuarial Assumptions:**

The total pension asset in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 %
Salary Increases	5.83 % at entry to 3.87 % after 30 years of service
Investment Rate of Return	7.25 % through 2016; 7.50 % thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	2.0%	0.8%
	-----	
Total	100%	
	=====	

**Discount Rate:**

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2015**

**(6) Retirement/Pension Plan (Concluded)**

**Sensitivity of (liability) to changes in the discount rate:**

The following presents the Authority’s proportionate share of net pension asset calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Authority’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
Authority’s proportionate share of the net pension (liability) asset	\$(3,764,784)	\$3,809,785	\$9,987,636

**Pension Plan Fiduciary Net Position:**

Detailed information about the plan’s fiduciary net position is available in the separately issued SDRS financial report.

**(7) Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no insurance claims exceeding insurance coverage during the past three years. During the period ended June 30, 2015, the Authority managed its risks as follows:

**Building Structure Charges:**

The buildings and permanent structures owned by the Authority are not covered by commercial insurance.

**Personal Property Insurance:**

The Authority purchases insurance for the contents of the administration building from a commercial insurance carrier, however, the contents of the Authority’s other buildings are not insured.

**Employee Health Insurance:**

The Authority purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Liability Insurance:**

The Authority purchases liability insurance for risks related to torts; theft or damage of property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Worker’s Compensation:**

At the policy renewal date of 06/01/15 the Authority continues to purchase workmen’s compensation through the South Dakota Worker’s Compensation Insurance Plan. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Unemployment Benefits:**

The Authority provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

## SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

#### (8) Significant Commitments, Contracts, and Subsequent Events

On December 23, 2009, the Authority received \$20,000,000 designated as Sanford Gift No.2. Gift No.2 was originally established for the Sanford Center for Science Education. Two amendments to the Homestake Gift Agreement were signed in June 2010 and October 2011, respectively, whereby it was agreed to use \$15 million of this \$20 million for the purpose of infrastructure and safety upgrades at the Underground Davis Campus and for replacing steel and other rehabilitation of the Ross Shaft. In early August, 2012, the Authority signed a third amendment to the Gift Agreement and received the remaining \$15 million of Gift No.2 called for by Section 2 of the Gift Agreement. The Gift No.2 balance of \$20 million was to be held in a restricted fund whereby the principal was not to be expended until a written approval of a business and operational plan for the Sanford Center for Science Education was received from Mr. Sanford. Furthermore, the third amendment allows the Authority to utilize and expend interest and other earnings on Gift No.2 restricted funds. In May, 2013, the Authority signed a fourth amendment to the Gift Agreement whereby it was agreed to expend up to \$7,000,000 of Gift No.2 for the construction or remodeling of the Yates Dry Building (located at SURF), the remodeling or replacement of the Lead Homestake Visitor's Center and the remodeling of Jonas Hall (located on the campus of Black Hills State University in Spearfish, SD). This authorization was conditioned on the Authority raising \$1.5 million from other sources for the Black Hills State University project and \$1 million for the Sanford Lab Visitor's Center in Lead. The Authority secured a \$2 million Future Fund grant from the State of South Dakota in October 2013 and an additional \$500,000 was received in July 2014 from Great Plains Education Foundation that satisfies this monetary obligation. Both outside facilities have agreed in writing to incorporate and use the name "Sanford" in the naming of the facilities. Operating agreements are in place which reasonably provide for the ongoing operations of the respective facilities by the Lead Chamber of Commerce and Black Hills State University. MOU's (Memorandum of Understanding) agreements have been signed with the applicable institutions that provide for the name "Sanford" to be used and operating agreements as stipulated in the fourth amendment. Given the construction budget of the (SLVC), the Jonas Science Building renovation costs, and the anticipated cost of the Yates Dry Building, it was not possible to undertake the upgrades to the Yates Dry with current funding. These details were reported in the Fifth Amendment to the Homestake Gift Agreement in February 2015. Furthermore, any part of Gift No.2 not used for the three construction projects may be used for the construction and operation of additional underground laboratory space at SURF to accommodate other experiments, and for related infrastructure to access or support the new laboratory space through the shafts.

In February 2010, the Authority entered into a contract with AmWest, Inc. – Hydro Resources in the amount of \$1,540,000 for the installation and maintenance of a deep level pump system. Subsequent change orders increased the contract amount to \$1,782,500 and extended the date through December 31, 2011. Another change order signed in May 2012 increased the contract amount to \$4,482,500 with a period of performance through December 31, 2017. The leased pump system is designed to dewater the mine from approximately the 5000' level to approximately the 7800' level. With the current vision of the DOE to not develop science laboratories past the 4850' level, the scope of this contract has been revised. Further negotiations with AmWest, Inc. resulted in the signing of another addendum to the contract effective January 1, 2013. This addendum reduced the monthly lease charges by \$2,500 per month for the years of 2013 through 2017, resulting in an overall savings of \$150,000. Additionally, the agreement calls for the leased property to become the property of the lessee on January 1, 2018 without any additional payment. It will then become the property of the Federal Government as these capital asset-type costs are being charged direct to the subcontract with LBNL.

In November 2013, the Authority entered into a contract with Ainsworth-Benning Construction Company in the amount of \$3,387,284 for the construction of the Sanford Lab Visitor Center to replace the Lead Homestake Visitor Center. Subsequent change orders increased the contract amount to \$3,634,063. Construction began in July 2014 and was substantially completed by the grand opening date of June 30, 2015. Additional contracts were signed with C & G Partners, Situ Fabrication, and Formations Inc. amounting to \$733,977 for exhibit design and fabrication. Included was a sculptural model of the SURF landscape and underground tunnel network. Final invoicing and total completion of the project will occur in fiscal year 2016. Ownership will then be transferred to the Lead Chamber of Commerce.

A contract was signed in early January 2014 with the South Dakota School of Mines and Technology (SDSM&T) to be the lead institution for the accelerator project known as (CASPAR) Compact Acceleration System Performing Astrophysical Research. With an additional change order the contract total is \$999,334 and extends into fiscal year 2016. This project will be located in the new underground laboratory at the 4850' Level near the Ross Shaft. Another underground facility is also nearing completion in close proximity to this laboratory for Black Hills State University

## **SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2015**

#### **(8) Significant Commitments, Contracts, and Subsequent Events (Continued)**

to support low background counting activities, biology study workstations, and other future small scale experiments. A contract with Dean Kurtz Construction was entered into in January 2014 for \$2,668,062 for the design and outfitting of both facilities. With additional change orders, the contract amount has been increased to \$2,746,300. Construction was substantially completed in September 2015 allowing experimenters to move into the facilities.

The Authority's long term cooperative agreement with Homestake Mining Company of California continues. The Authority agrees to combine Homestake's wastewater from Grizzly Gulch with the mine wastewater, as well as treat, and discharge the water. For the first year of this agreement, Homestake agreed to pay the Authority an amount ranging from \$.58 to \$.84 per 1000 gallons based on an average total gallons treated per minute per month. Revenue from this agreement for the past two years was \$206,036 and \$195,877 respectively. Revenue was slightly higher this last year due to the number of gallons treated being slightly higher. This negotiated treatment price will be renegotiated once per year for the length of the contract. The negotiated price was renewed for the current year. Estimated revenues for the upcoming year are at \$218,000; somewhat higher than last year's actual due to increasing Homestake water to be treated. The term of the contract runs to September 30, 2020.

A draft lease between the Authority and DOE for land (above ground) and space (underground) for the Long Baseline Neutrino Facility (LBNF) has been developed and concurred on by the DOE-Chicago Real Estate Committee. It has been reviewed by the Authority's legal counsel and sent to Homestake/Barrick for their review per our property donation agreement. The term of the lease goes through June 30, 2035, but shall remain in force thereafter from year to year without further notice, but shall in no event extend beyond June 30, 2100.

The Authority, along with the South Dakota Bureau of Administration, and five additional South Dakota Authorities signed a Joint Powers Agreement on June 1, 2015 to form a captive insurance company to insure against certain risks. \$2,500,000 was repurposed in August 2015 from a portion of the \$10,000,000 Indemnification Fund held by the Authority. The original Appropriation Act for the indemnification fund that was made by the State Legislature in 2004 was included as a part of the agreement between Homestake Mining Company and the Authority. Homestake Mining Company has agreed with the signing of the Third Amendment to the Property Donation Agreement in August 2015 to release \$2,500,000 from the Indemnification Fund in order for the Authority to fund the captive insurance company. The Act from 2004 was revised by the State Legislature per Legislative Session 2015 HB 1186, to allow the use of up to \$2,500,000 to be used to provide initial capital and pay expenses for the Authority's purposes in the captive insurance company.

Letter Agreement #1586 was signed in August 2015 between the Governor's Office of Economic Development (GOED) and the Authority whereby the State is granting up to \$6,000,000 between July 14, 2015 and September 30, 2018. The State has chosen to engage in a public-private partnership with the Authority, the South Dakota Community Foundation, and other private foundations, to assist with the costs of infrastructure/laboratory upgrades, procurement of xenon for future "Dark Matter" experiments, and interest payments to private investors. The first \$2,000,000 was received from the State in September 2015. A loan agreement is in place between the Authority and South Dakota Community Foundation to secure \$2,000,000 to be used for the purchase of xenon for the future LZ experiment. This loan is an eleven year unsecured nonrecourse loan with 2.5% simple interest to be paid quarterly to the lender. The loan will be repaid at the end of the LZ experiment (approximately October 2026) from the sale proceeds of the xenon previously purchased.

#### **(9) Construction Work in Progress**

The Authority accumulates the costs of construction projects in Construction Work in Progress until such time as the projects are completed and/or placed in service. Some of the ongoing improvement projects are capitalized as they progress. The \$24,336,743 of construction work in progress at June 30, 2015, consisted of \$15,087,491 of accumulated costs for the Ross Shaft rehabilitation project, \$4,460,206 for the Sanford Visitor Center, \$3,393,207 for the (CASPAR) experiment and (CASPAR)-(BHSU) facility development, \$1,383,791 for the Jonas Science Center renovations, and \$12,048 for a work deck. The costs accumulated consist of amounts under contract in addition to materials and other expenses purchased by the Authority. The remaining commitment on existing contracts at June 30, 2015 is approximately \$4,489,282. These commitments are to be paid for using current accumulated funds that have been redirected from the Sanford Gift #2, the State Legislative Appropriation balance left of the \$3.95 million received in March 2015, as well as private fund raising activities.

## **SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2015**

#### **(10) Continuing Operations**

The DOE's 2016 budget includes approximately \$14 million to fund basic operations at the Sanford Lab. Modification No. 33 to Subcontract No. 6994297 was signed on September 21, 2015 with LBNL extending the period of performance to November 30, 2015. The current 2016 budget is being reviewed by LBNL procurement and DOE headquarters for approval. An additional request to this contract for \$4,257,960 for the Ross Shaft refurbishment project is also at DOE headquarters for consideration. This will fund the project for approximately nine months. Another small subcontract with LBNL is still in place to fund Authority support for LUX (Large Underground Xenon) experiment. Modification No. 13 extended the period of performance through December 30, 2015. Modification No. 14 added additional funding of \$109,549 for the project. Additionally, Authority support for the LUX/Zeplin experiment design has been extended to December 31, 2015. Further support for designs for underground and surface needs for the LBNF (Long Baseline Neutrino Facility) are in place with subcontracts through FNAL (Fermi National Accelerator Laboratory). The preferred site for the detector per the scientific community is underground. In October 2014 after the visit to SURF by the international group of collaborators the Sanford Lab was named to remain the host for the (LBNF) related detectors. After further meetings, the collaboration officially transferred all responsibilities to a new collaboration referred to as the Long Baseline Neutrino Facility (LBNF) consisting of United States and International support. LBNF construction could start as early as the middle of 2017 with the experiment running through approximately 2040.

On May 8, 2013, the research project labeled DIANA (Dual Ion Accelerators for Nuclear Astrophysics) informed the Authority that they selected the Sanford Laboratory to host the experiment. The NSF (National Science Foundation) funded the design development through Notre Dame University. The construction phase of this experiment was not funded by the NSF. Instead, a smaller scale project labeled CASPAR is currently mobilizing in the Ross Campus on the 4850-foot level underground. The Authority pledged initial support of \$999,334 towards experiment development. The facility also includes a laboratory for BHSU (Black Hills State University) which is also nearing completion. Chilled water and power distribution will be shared by both groups to reduce costs.

#### **(11) Related Party Transactions**

Mr. Ron Wheeler was appointed to the Board of Directors by the Governor effective July 1, 2013, and is a current member of the Board of Directors. As of July 1, 2013, Ron Wheeler transitioned from Executive Director to the Director of Governmental & External Affairs for the Authority. Mr. Wheeler was a full-time employee of the Authority until January 3, 2014, at which time he retired from full-time employment. Effective January 3, 2014, the Authority signed a contract with Mr. Wheeler as a consultant for the Authority. The contract is for \$275,000 and extends to January 3, 2017. For the period of July 1, 2014 – June 30, 2015, he was paid \$102,775.50 for his consulting services. Mr. Wheeler will assist in directing the state and federal government affairs programs for the Authority. Additionally he will maintain and foster private funding sources for the long-term growth of the facility.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A



**SCHEDULE OF PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY (ASSET)**

**South Dakota Retirement System**

Last 10 Fiscal Years \*

	<u>2014</u>
Authority's proportion of the net pension liability (asset)	0.5287996%
Authority's proportionate share of net pension liability (asset)	\$ (3,809,788)
Authority's covered employer payroll	\$ 8,888,749
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	42.86%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107%

\* The amounts presented for each fiscal year were determined as of 06/30

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

### South Dakota Retirement System

Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 557,420
Contributions in relation to the contractually required contribution	<u>\$ 557,420</u>
Contribution deficiency (excess)	<u>\$ -</u>
Authority's covered-employee payroll	\$ 9,042,866
Contributions as a percentage of covered-employee payroll	6.16%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

## SUPPLEMENTARY INFORMATION



**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**SCHEDULE OF OPERATING EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>Personal Services</b>	
Employee Salaries	\$ 6,471,384
Employee Benefits	2,244,670
<b>Total Personal Services</b>	<b>8,716,054</b>
<b>Travel</b>	
Meals and Lodging	39,492
Auto and Fleet Services	41,064
Air - Commercial and Charter	37,762
Incidentals to Travel	2,648
Non-Employee Travel	43,311
Meals (Not Overnight)	253
<b>Total Travel</b>	<b>164,530</b>
<b>Contractual Services</b>	
Equipment Rental	93,643
Contractual - Other	5,288,241
Insurance	404,288
Lobbying	214,000
Computer Services	228,823
Telecommunications	48,428
Monitoring and Programming	85,668
Legal Consultant	41,728
Training	22,585
Consultant Fees - Accounting and Auditing	11,455
Promotion and Advancement	9,722
Dues and Memberships	4,049
Utilities	2,049,126
Maintenance and Repairs	472,079
<b>Total Contractual Services</b>	<b>8,973,835</b>
<b>Supplies, Materials and Other Operating Expenses</b>	
Maintenance and Repairs	440,918
Other Supplies and Equipment	752,837
Other Expenses	3,602
Office Supplies and Equipment	24,145
Safety	2,346
Licenses and Permits	36,999
Workshop and Registration Fees	23,948
Postage	3,375
Bank Charges	544
<b>Total Supplies, Materials and Other Operating Expenses</b>	<b>1,288,714</b>
Amortization Expense	114,371
Depreciation Expense	1,742,887
<b>Total Operating Expenses</b>	<b>\$21,000,391</b>

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	Pass-Through Numbers	CFDA Numbers	Amount
<i>U.S. Department of Energy</i>			
Pass-Through the Regents of the University of California LUX (Large Underground Xenon) Research & Development	6973786	81.6973786	\$ 178,460
<i>U.S. Department of Energy</i>			
Pass-Through the Regents of the University of California SURF (Sanford Underground Research Facility) Operations Support	6994297	81.6994297	13,967,413
<i>U.S. Department of Energy</i>			
Pass-Through the Regents of the University of California LUX/Zeplin (LZ) Experiment Design Engineering Support	7093667	81.7093667	200,050
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory LBNF(Long Baseline Neutrino Facility) NEPA Environment	609755	81.609755	96,166
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory LBNF (Long Baseline Neutrino Facility) Environmental Analysis	610998	81.610998	21,820
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory LBNF (Long Baseline Neutrino Facility) Engineering Support	613525	81.613525	205,364
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory LBNF (Long Baseline Neutrino Facility) Rail-veyor Design	614808	81.614808	17,146
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory LBNF (Long Baseline Neutrino Facility) Geotechnical Exploration	614807	81.614807	677,850
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory LBNF (Long Baseline Neutrino Facility) International Engineer. Supp.	618743	81.618743	54,875
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory LBNF (Long Baseline Neutrino Facility) Engineering Support	618228	81.618228	234,192
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory LBNF (Long Baseline Neutrino Facility) Excavation Prelim. Design	618741	81.618741	941,847

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	Pass- Through Numbers	CFDA Numbers	Amount
<i>U.S. Department of Energy</i>			
Pass-Through Fermi National Accelerator Laboratory			
LBNF (Long Baseline Neutrino Facility) Building/Site Infrastructure	620223	81.620223	844,457
<i>U.S. Department of Energy</i>			
Pass-Through University of North Carolina at Chapel Hill			
Conceptual Design for Majorana Demonstrator	5044819	81.5044819	31,998
<i>National Science Foundation:</i>			
Pass-Through Case Western Reserve University			
Mathematical and Physical Sciences	5000228814	47.049	1,194
<i>National Science Foundation:</i>			
Pass-Through Regents of the University of Minnesota			
Mathematical and Physical Sciences	A003778902	47.049	28,682
<b>Total</b>			<b>\$17,501,514</b>

Note: The schedule of expenditures of federal awards is presented on the cash basis of accounting.