

SOUTH DAKOTA SCIENCE
AND TECHNOLOGY AUTHORITY
(A BUSINESS TYPE ENTERPRISE ACTIVITY COMPONENT UNIT OF
THE STATE OF SOUTH DAKOTA)

ANNUAL FINANCIAL REPORT
JUNE 30, 2016

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

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SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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, 2016 (FY 2016). 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, 2016

FINANCIAL HIGHLIGHTS:

- Total assets at year-end decreased to \$111,753,228.
- Current and Other Assets decreased by \$5,064,245, primarily due to the expenditure of funds from the cash accounts being held by the State Treasurer on behalf of the Authority.
- Capital Assets decreased by \$2,783,966. Page 5 details the major capital asset additions and deletions. Furthermore, page 16 summarizes the changes in capital assets by major categories. Notable increases include the finalization of the Ross Campus project. An additional experiment space is now provided for a variety of science experiments. Significant decreases include the conveyance of the Sanford Lab Homestake Visitor Center including the building and exhibits to Homestake Visitor Center, Inc. as well as finalizing the support for the Sanford Science Education Center at Black Hills State University (BHSU).
- Net Pension Asset has been revised to include Xenon Purchased. Net Pension Asset decreased on our Statement of Net Position by \$1,651,357. Even though the total contributions to the South Dakota Retirement System (SDRS) increased from 2014 to 2015, the Authority's proportionate share concerning our retirement plan decreased. (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, 2015 pension measurement date for our fiscal year end June 30, 2016 statements. Our proportionate share of the collective net pension asset equals \$2,158,428. A \$2,000,000 loan with the South Dakota Community Foundation has enabled the Authority to purchase xenon to be used in the future LZ experiment. As of June 2016 \$1,606,663 of xenon has been purchased. In summary, the Net Pension Asset and Xenon Purchased has decreased by \$44,694.
- Deferred Outflows of Resources is also related to our retirement plan with (SDRS). 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, 2015. The total Deferred Outflows of Resources equals \$4,129,426.
- Total liabilities at year end increased to \$6,237,653, primarily due to an additional liability created by the signing of a loan agreement with the South Dakota Community Foundation. The \$2,000,000 loan is 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. Yet, Other Liabilities decreased for the capital lease liability on the deep pump system as well as a reduction in accounts payable.
- Deferred Inflows of Resources is also related to our retirement plan with (SDRS). The recorded amount relates to our portion of the difference between projected and actual investment earnings. Our portion equals \$3,184,802.
- Total restricted net position decreased to \$18,208,604, partially due to the expenditure of funds received from Mr. Sanford. Funds were expended on projects authorized by the Fourth Amendment to the Homestake Gift Agreement including the completion of the new Sanford Lab Homestake Visitor Center and the Sanford Science Education Center renovations at BHSU, and for additional underground laboratory space designated as the Ross Campus. An additional \$2,500,000 was repurposed from the Indemnification Fund in order for the Authority to provide initial capital and pay expenses associated with providing liability coverage from the newly formed South Dakota Authority Captive Insurance Company. However, restricted net position did increase for funds related to pension benefits as well as experiment funding set aside for xenon procurement, the related interest payments for xenon procurement loans, and infrastructure upgrades.
- Unrestricted net position decreased to \$3,727,119.
- Total net position at year end decreased to \$106,460,198.
- Charges for Services increased slightly to \$247,502. Revenue from Homestake increased slightly due to an increase in water being treated and discharged for Homestake.
- Operating Grants increased to \$24,889,116. The revenue received in this classification includes \$17,786,128 received from Lawrence Berkeley National Laboratory, \$6,664,485 from Fermi National Lab, and \$438,503 from the SD Governor's Office of Economic Development (GOED) and various smaller universities.
- There was no Pension Related Revenue as our proportionate share of the collective net pension asset from South Dakota Retirement System (SDRS) decreased from last year.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2016

FINANCIAL HIGHLIGHTS (Continued)

- Capital Grants and Contributions decreased to \$4,282,782 (down \$2,911,586 from the prior year). The revenue received in this category includes \$4,000,000 from GOED for xenon procurement, interest payment expenditures on loan agreements, and infrastructure upgrade expenditures for the future LZ experiment. Additional contributions include \$25,000 from the Deadwood Historical Society, \$57,782 from the City of Lead, and \$200,000 from Black Hills Energy.
- Investment Earnings increased slightly to \$337,182 compared to \$216,435 in the previous year.
- Total Program Expenses for the Authority were \$37,220,226 which represents an increase of 76.85 percent from the previous year. The majority of the increase includes the conveyance of the Sanford Lab Homestake Visitor Center to Homestake Visitor Center, Inc. The MOU (memorandum of Understanding) between the Lead Area Chamber of Commerce and the Authority stipulated that once finalized, it was to become the property of and be operated by Homestake Visitor Center, Inc. The amount expensed for this project was \$4,844,210. Similarly, the Sanford Science Education Center project at Black Hills State University has been completed which resulted in \$2,500,000 of expense. Furthermore, an additional \$2,500,000 was repurposed from the Indemnification Fund in order for the Authority to provide initial capital and pay liability coverage expenses associated with a newly formed Captive Insurance Company. The Captive was established to provide more comprehensive coverage at an overall lower cost. Over time, as capital grows it will allow the Authority to self-insure more risk and lower our overall costs of insurance. Also included in Total Program Expenses - Operating Expenses which increased by \$6,189,788 to \$27,160,179. Of the total expenses in this category, the major expenses were contractual services – 43.9 percent, personal services – 39.5 percent, and supplies, materials, and other operating expenses – 8.3 percent. The majority of the increase in Operating Expenses is a result of transferring the Ross Rehab costs to a subcontract with LBNL (federal funds through the Department of Energy) as of January 2016. Prior to that date, the costs were being covered by Sanford funds and State funds which were capitalized each year as Improvements in Progress.
- Net position decreased by \$7,391,353 for fiscal year 2016. Fiscal year 2015 was the first year to implement GASB 68 which shows including a prior period adjustment back to fiscal year 2014. Thus for fiscal year 2016 there is not an additional prior period adjustment.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2016

FINANCIAL STATEMENT ELEMENTS:

NET POSITION

	2016	2015	Dollar Change	Percent Change
Current and Other Assets	\$ 23,119,508	\$ 28,183,753	\$ (5,064,245)	-17.97%
Capital Assets	84,868,629	87,652,595	(2,783,966)	-3.18%
Net Pension Asset and Xenon Purchased	3,765,091	3,809,785	(44,694)	-1.17%
Total Assets	111,753,228	119,646,133	(7,892,905)	-6.60%
Pension Related Deferred Outflows	4,129,426	3,366,693	762,733	22.66%
Total Deferred Outflows of Resources	4,129,426	3,366,693	762,733	22.66%
Long-Term Liabilities Outstanding	2,602,661	686,728	1,915,933	278.99%
Other Liabilities	3,634,992	4,062,174	(427,182)	-10.52%
Total Liabilities	6,237,653	4,748,902	1,488,751	31.35%
Pension Related Deferred Inflows	3,184,802	4,412,373	(1,227,571)	-27.82%
Total Deferred Inflows of Resources	3,184,802	4,412,373	(1,227,571)	-27.82%
Net Position:				
Net Investment in Capital Assets	84,524,475	87,131,074	(2,606,599)	-2.99%
Restricted	18,208,604	22,369,484	(4,160,880)	-18.60%
Unrestricted	3,727,119	4,350,993	(623,874)	-14.34%
Total Net Position	\$ 106,460,198	\$ 113,851,551	\$ (7,391,351)	-6.49%

CHANGE IN NET POSITION

	2016	2015	Dollar Change	Percent Change
Revenues				
Program Revenues:				
Charges for Services	\$ 247,502	\$ 207,254	\$ 40,248	19.42%
Operating Grants	24,889,116	19,373,689	5,515,427	28.47%
Miscellaneous	72,291	95,024	(22,733)	-23.92%
Pension Related Revenue	-	160,924	(160,924)	-100.00%
Capital Grants and Contributions	2,282,782	7,194,368	(4,911,586)	-68.27%
Other Grant Revenue	2,000,000	-	2,000,000	100.00%
General Revenues:				
Investment Earnings	337,182	216,435	120,747	55.79%
Total Revenue	29,828,873	27,247,694	2,581,179	9.47%
Program Expenses:				
Science and Technology Authority	37,220,226	21,046,711	16,173,515	76.85%
Total Expense	37,220,226	21,046,711	16,173,515	76.85%
Change in Net Position	(7,391,353)	6,200,983	(13,592,337)	-219.20%
Prior Period Adjustment	-	2,045,761	(2,045,761)	-100.00%
Net Position-Beginning	113,851,551	105,604,807	8,246,745	7.81%
Net Position-Ending	\$ 106,460,198	\$ 113,851,551	\$ (7,391,353)	-6.49%

By June 30, 2016, the Authority had invested \$84,868,629 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 \$84,868,629 (approximately 24% of this total value) was donated by Barrick Gold. This amount represents a net decrease (including additions and deductions) of \$2,783,966, or 3.18 percent, over the last year.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2016

CAPITAL ASSETS (Net of Depreciation)

	2016	2015	Change
Improvements	\$ 31,977,971	\$ 29,745,184	\$ 2,232,787
Underground	17,767,955	17,250,828	517,128
Buildings	5,615,699	5,761,452	(145,753)
Computer Equipment	76,685	59,147	17,538
Equipment	7,056,727	7,332,534	(275,807)
Construction in Progress	19,258,934	24,336,743	(5,077,809)
Land	1,579,298	1,579,298	-
Infrastructure	1,408,819	1,447,426	(38,607)
Furniture	34,951	39,941	(4,990)
Archive Material	70,000	70,000	-
Auto	21,590	30,043	(8,453)
Total Capital Assets	\$ 84,868,629	\$ 87,652,595	\$ (2,783,966)

This year's major capital asset additions and deletions included:

Purchased Capital Assets:

Computer Servers/Switches	\$ 42,602
Conference Room Smart Board/Digital Media	101,713
Cable Pull Assembly	5,763
Industrial Vacuum System	47,985
(2) Yates Skip Cage Bonnets	46,187
Ross Campus Air Handling Units/Chillers/Heat Exchanger	142,334
Control Actuator/Globe Valve	8,979
Cryofab Liquid Nitrogen System	22,654
(2) Neutron Doors	89,520
Lighting Inverter	10,000
300 KVA Transformer	20,572
Fire Alarm Panel	18,292
Reliable Preaction Valve	12,801

Improvements (Current Year Additions):

Ross Campus Shotcrete	419,793
Ross Campus Cleanroom	2,541,236
Ross Water Suppression System	232,972
Ross Campus Excavation	329,558
Underground Mitigation Improvements	187,570

Improvements in Progress (Current Year Additions):

Ross Shaft Rehabilitation	2,577,744
CASPAR Experiment Development	139,822
Water Inflow Pipe System	209,828
LUX/Zeplin Facility Upgrades	545,396

Improvements in Progress (Current Year Deletions):

Sanford Lab Homestake Visitor Center	(4,844,210)
Sanford Science Education Center at BH State University	(2,500,000)

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016**

LONG-TERM DEBT

At the year-end, the Authority had \$2,602,661 in other long-term obligations. This is an increase of 278.99 percent as shown below.

	2016	2015	Total Dollar Change	Total Percentage Change
Compensated Absences	\$ 443,101	\$ 342,575	\$ 100,526	29.34%
Capital Acquisition Lease	159,560	344,154	\$ (184,594)	-53.64%
Xenon Notes Payable	2,000,000	-	\$ 2,000,000	100.00%
	\$ 2,602,661	\$ 686,729	\$ 1,915,932	278.99%

- (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. Included in the increase is the xenon note payable to the South Dakota Community Foundation. Note (4) Long-Term Debt in the Notes to Financial Statements on page 17 details the capital lease and the xenon note payable.

ECONOMIC FACTORS

- 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 the Sanford Underground Research Facility (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 the National Science Foundation (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 approved a capital budget for fiscal year 2016 of \$12,215,257 towards the Ross Shaft rehabilitation project, concluding the facility development for the Ross Campus on the 4850-foot level, and finalizing the Sanford Science Education Center at BH State University renovation and construction of the Sanford Lab Homestake Visitor Center. Additional projects included experiment development for the Compact Accelerator System for Performing Astrophysical Research (CASPAR), as well as xenon procurement for the LZ experiment and upgrades to surface and underground facilities for the future G2-LZ (Generation 2 LUX-Zeplin) experiment. Actual expenditures for the year totaled \$7,540,961. Actual expenses were lower than budgeted partially due to the Ross Shaft rehabilitation project transitioning to a contract with LBNL with federal funding. Estimated costs through December 2016 totaled \$6,538,046 with an initial allocation of \$4,500,000 for this project. Funding for the balance of these projects had been designated primarily from the Sanford funds including a portion of Gift No. 2. Funding for xenon procurement and the upgrades for the LZ experiment was secured with the signing of Letter Agreement #1586 in August 2015 with the Governor's Office of Economic Development (GOED) and through separate funding from Foundations.
- Additionally, an operations budget of \$15,043,116 had been approved to manage and operate the facility for the federal fiscal year October, 2015 – September 2016. Modifications to Subcontract No. 6994297 were signed with Lawrence Berkeley National Laboratory for this additional DOE funding. Actual expenditures were \$14,727,035. Thus, the Authority was under budget by \$316,081 for the federal fiscal year.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2016

ECONOMIC FACTORS (Continued)

- Further funding was received in fiscal year 2016 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. Additional funding was received through LBNL for the Ross Shaft rehabilitation project as well as another small drilling project labeled KISMET.
- In late 2012, the DOE approved the Long Baseline Neutrino Experiment (LBNE) to proceed with preliminary designs to construct a large detector at SURF. In October 2014, The United States along with international partners agreed that the The Sanford Lab was 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 in Lead, SD. More recent developments (September 2016) involve the DOE formally approving plans for construction of the first two large underground caverns at SURF for DUNE. The first step of installing the systems to transport hundreds of thousands tons of rock to the surface will begin in 2017. The excavation for the two caverns to house the neutrino detectors and related utilities is expected to begin in the fall of 2018. 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. Additional support was received for Excavation Preliminary and Final Design, Building/Site Infrastructure, as well as funding for a blast vibration study and surface rock handling through final design. DOE support continues into fiscal year 2017 for the LBNF project.
- Additional funding was received during the fiscal year from various institutions including University of North Carolina, Oak Ridge National Laboratory, and the University of Minnesota. Funds were received at SURF to support 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 2017 from Oak Ridge National Laboratory as well as University of Minnesota.
- 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 2017.
- The Authority's fiscal year 2017 capital budget provides for spending \$6,850,095. Projects include concluding the (CASPAR) experiment development, continuing the 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 loan agreements for \$6,000,000 from state foundations. Agreements have been signed with the South Dakota Community Foundation, South Dakota State University Foundation, and University of South Dakota Foundation for \$2,000,000 each to be used towards the purchase of xenon. The Authority's Board of Directors also approved a budget of \$554,573 in favor of Authority supported activities.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

JUNE 30, 2016

ECONOMIC FACTORS (Continued)

- A Letter 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 is documented. An amended agreement dated July 8, 2016 commits an additional \$200,000 toward education and outreach priorities for the period July 2016 – June 2017. Funding for this agreement originated from a Letter 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. Years two and three funding of \$300,000 and \$250,000 were received from GOED. The balance of year three funding will be received in May of 2017. Additional support of \$125,000 per year for four years for education programs was received from Great Plains Education Foundation. Funding will be received upon sending documented support of achievements.
- As of federal fiscal year 2017, our operations budget to manage and operate the facility is transitioning to Fermi National Accelerator Laboratory (FNAL). A “bridge” contract for the period of October 2016 through December 2016 has been submitted for approval. Following that will be a submittal for a five-year contract that will span the calendar years. The Ross Shaft rehabilitation contract extends through December 2016 with LBNL. This contract will also transition to FNAL from January 2017 through completion in late 2017.
- 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, 2016**

ASSETS

Current Assets

Cash in Local Bank and Petty Cash	\$ 963,851
Cash on Deposit with State Treasurer	15,429,411
Accounts Receivable	3,799,532
Interest Receivable	43,088
Prepaid Expenses	440,720
Inventory of Supplies & Warehouse	2,442,906
Total Current Assets	23,119,508

Noncurrent Assets

Xenon Purchased	1,606,663
Net Pension Asset	2,158,428
Land	1,579,298
Underground	17,767,955
Improvements in Progress	19,258,934
Buildings, Machinery, Equipment and Infrastructure (Net) (Note 3)	46,262,442
Total Noncurrent Assets	88,633,720

TOTAL ASSETS **111,753,228**

Deferred Outflows of Resources

Pension Related Deferred Outflows	4,129,426
Total Deferred Outflows of Resources	4,129,426

LIABILITIES

Current Liabilities

Accounts Payable	2,538,750
Accrued Wages and Benefits	468,548
Accrued Leave, Benefits, and Capital Acquisition Lease (Note 4)	627,694
Total Current Liabilities	3,634,992

Long-Term Liabilities

Accrued Leave, Benefits, and Capital Acquisition Lease Net of Current Portion (Note 4)	602,661
Long-Term Xenon Notes Payable	2,000,000

TOTAL LIABILITIES **6,237,653**

Deferred Inflows of Resources

Pension Related Deferred Inflows	3,184,802
Total Deferred Inflows of Resources	3,184,802

NET POSITION

Invested in Capital Assets	84,524,475
Restricted for:	
Mine Closure	1,407,531
Experiments	4,384,092
Indemnification	7,500,000
Interim Lab-Sanford	-
Sanford Center for Science Education	1,813,929
Pension	3,103,052
Unrestricted Net Position	3,727,119

TOTAL NET POSITION **\$ 106,460,198**

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, 2016**

Operating Revenue	
Charges for Goods and Services	\$ 247,502
Operating Grants	24,889,116
Miscellaneous	72,291
Total Operating Revenue	25,208,909
Operating Expenses	
Personal Services	10,739,403
Travel	193,971
Contractual Services	11,920,093
Supplies, Materials and Other Operating Expenses	2,251,164
Amortization Expense	177,367
Depreciation Expense	1,878,181
Total Operating Expenses	27,160,179
Operating Loss	(1,951,270)
Nonoperating Revenues	
Grant Revenue	2,000,000
Interest Revenue	337,182
Other Expense	(10,060,047)
Total Nonoperating Revenues	(7,722,865)
Loss Before Capital Grants	(9,674,135)
Capital Grants	2,282,782
Change in Net Position	(7,391,353)
Net Position -- Beginning of Year	113,851,551
Net Position -- End of Year	\$ 106,460,198

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

Cash Flows from Operating Activities:

Other Operating Cash Receipts	\$ 311,499
Cash Receipts from Operating Grants	24,447,092
Cash Payments to Employees for Services	(10,472,758)
Cash Payments to Suppliers of Goods and Services	(14,277,848)
Net Cash Used in Operating Activities	7,985

Cash Flows from Noncapital Financing Activities:

Donations Received	
Grants & Donations Paid	(3,999,337)
Net Cash Used in Noncapital Financing Activities	(3,999,337)

Cash Flows from Capital and Related Financing Activities:

Grant Revenue	4,361,103
Purchase of Capital Assets	(5,420,053)
Principal Paid on Capital Debt	(177,367)
Interest Paid on Capital Debt	(17,633)
Interest/Insurance Paid on Xenon	(39,580)
Net Cash Used in Capital and Related Financing Activities	(1,293,530)

Cash Flows from Investing Activities:

Interest Earnings	358,093
Net Cash Provided by Investing Activities	358,093

Net decrease in Cash and Cash Equivalents **(4,926,789)**

Cash and Cash Equivalents at Beginning of Year 21,320,051

Cash and Cash Equivalents at End of Year **\$ 16,393,262**

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

Operating Loss	\$ (1,951,270)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Depreciation & Amortization Expense	2,064,461
Change in Assets and Liabilities:	
Receivables	(450,319)
Prepaid Expenses	(57,781)
Inventory of Supplies	1,684
Net Pension Asset	1,651,357
Decrease(Increase) in Deferred Outflow of Resources - Pension	(762,733)
Increase (Decrease) Deferred Inflow of Resources - Pension	(1,227,571)
Accounts and Other Payables	457,306
Accrued Wages Payable	81,797
Accrued Leave Payable	201,054
Net Cash Used in Operating Activities	\$ 7,985

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Cash and Cash Equivalents:

Cash in Local Bank	\$	963,801
Petty Cash		50
Cash with State Treasurer		15,429,411
Total Cash and Cash Equivalents	\$	16,393,262

Non-Cash Capital and Related Financing Activities:

Loss on Disposal of Assets		12,140
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The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

(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). Additional focus is maintained by the Authority for an education and outreach program detailing the progress.

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, 2016

(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 proprietary 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, 2016

(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

The majority of the Authority's cash is on deposit with the State Treasurer. Such funds are invested through the South Dakota Investment Council. 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, 2016

(3) Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Reclassified*	Increases	Decreases	Balance June 30, 2016
Business-Type Activities:					
Capital Assets, not Being Depreciated:					
Land	\$ 1,579,298	\$ -	\$ -	\$ -	\$ 1,579,298
Underground	17,250,828	329,558	187,570	-	17,767,956
Archive Materials	70,000	-	-	-	70,000
Construction Work in Progress (Note 8)	24,336,743	(8,485,299)	3,407,490	-	19,258,934
Total Capital Assets, not Being Depreciated	43,236,869	(8,155,741)	3,595,060	-	38,676,188
Capital Assets, Being Depreciated:					
Equipment Under Capital Lease	883,945	-	-	-	883,945
Automobiles	86,305	-	-	-	86,305
Buildings	7,223,086	-	-	-	7,223,086
Furniture	74,212	-	-	-	74,212
Computer Equipment	451,473	-	42,602	32,658	461,417
Improvements	33,812,540	2,029,489	1,164,513	-	37,006,542
Infrastructure	1,658,242	-	-	-	1,658,242
Machinery and Equipment	9,820,876	347,556	260,243	60,228	10,368,447
Total Capital Assets, Being Depreciated	54,010,679	2,377,045	1,467,358	92,886	57,762,196
Total Capital Assets, Before Depreciation	97,247,548	(5,778,696)	5,062,418	92,886	96,438,384
Less Accumulated Depreciation:					
Equipment Under Capital Lease	362,424	-	177,367	-	539,791
Automobiles	56,262	-	8,453	-	64,715
Buildings	1,461,633	-	145,753	-	1,607,386
Computer Equipment	392,326	-	25,063	32,658	384,731
Furniture	34,270	-	4,990	-	39,260
Improvements	4,067,357	-	961,214	-	5,028,571
Infrastructure	210,816	-	38,607	-	249,423
Machinery and Equipment	3,009,865	-	694,101	48,088	3,655,878
Total Accumulated Depreciation	9,594,953	-	2,055,548	80,746	11,569,755
Capital Assets, Net	\$ 87,652,595	\$ (5,778,696)	\$ 3,006,870	\$ 12,140	\$ 84,868,629

*Reclassifications are due to the Authority performing analysis of assets that were previously grouped in construction work in progress as well as Sanford Lab Homestake Visitor Center and the Sanford Science Education Center project costs transferred as contributions. Various devises were transferred to equipment placed in service as of June 30, 2016.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(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	\$ 685,148	\$ 672,807	\$ 471,753	\$ 886,202	\$ 443,101
Capital Acquisition Lease	521,521	-	177,367	344,154	184,594
Xenon Notes Payable	-	2,000,000	-	2,000,000	-
	<u>\$ 1,206,669</u>	<u>\$ 2,672,807</u>	<u>\$ 649,120</u>	<u>\$ 3,230,356</u>	<u>\$ 627,694</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%. \$ 344,154

Xenon Notes Payable

Loan agreement with S.D. Community Foundation to purchase xenon. The loan is an 11 year, unsecured non recourse loan with 2.5% simple interest paid quarterly. The note is due on October 1, 2026. \$ 2,000,000

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, 2016, are as follows:

	Capital Acquisition Lease		Xenon Notes Payable	
	Interest	Principal	Interest	Principal
2017	10,406	184,594	50,000	2,000,000
2018	2,940	159,560	50,000	2,000,000
Total	<u>\$ 13,346</u>	<u>\$ 344,154</u>	Total	<u>212,500 2,000,000</u>

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

Gross amount of assets under capital lease	\$ 883,945
Accumulated amortization	<u>539,791</u>
	<u>\$ 344,154</u>

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

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

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

(5) Xenon Purchased

Xenon purchased is valued at a cost per liter with additional freight, customs, and analysis charges. The total includes 20,000 liters purchased in 2013 valued at \$332,855 (average cost of \$16.64/liter), 100,000 liters purchased in November 2016 at \$6.80/liter valued at \$680,012, and 100,000 liters purchased in March at \$5.692/liter valued at \$593,796. Total xenon purchased to date is \$1,606,663.

(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 each July 1st 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:

Employees are required by state statute to contribute 6 percent of their salary to the plan. 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. The Authority's contributions to the SDRS for the fiscal years ended June 30, 2016, 2015 and 2014 was \$573,626, \$557,420, and \$554,835, respectively, equal to the required contributions each year.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(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, 2015, SDRS is 104.1% 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, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$54,842,739
Less proportionate share of total pension liability	\$52,684,311

Proportionate share of net pension asset	\$ 2,158,428
	=====

At June 30 2016, the Authority reported an asset of \$2,158,428 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 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, 2015, the Authority's proportion was .5089089% which is a decrease of .0198907% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Authority's recognized pension expense of \$234,678. At June 30, 2016 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.	\$ 441,948	\$
Changes in assumption.	\$ 1,711,498	\$
Net Difference between projected and actual earnings on pension plan investments.	\$ 1,318,547	\$ 3,184,802
Changes in proportion and difference between Authority contributions and proportionate share of contributions.	\$ 83,807	\$
Authority contributions subsequent to the measurement date.	\$ 573,626	\$
	-----	-----
TOTAL	\$ 4,129,426	\$ 3,184,802
	=====	=====

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(6) Retirement/Pension Plan (Continued)

\$573,626 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:	
2017	\$ 126,638
2018	\$ 126,638
2019	\$ (250,788)
2020	\$ 368,509
2021	\$
Thereafter	\$

TOTAL	\$ 370,997
	=====

Actuarial Assumptions:

The total pension asset in the June 30, 2015 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 2017; 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. 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, 2015 (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	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%

Total	100%	
	=====	

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

(6) Retirement/Pension Plan (Concluded)

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2017 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 from 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.

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 2017 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	\$(5,432,739)	\$2,158,428	\$8,348,371

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, 2016, 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.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

(7) Risk Management (Continued)

Liability Insurance:

The Authority purchases liability insurance for risks related to torts, theft or damage of property, errors and omissions of public officials, employee practices liability coverage, and professional engineers' coverage through its participation in the South Dakota Authority Captive Insurance Company, a component unit of the State of South Dakota. Additional liability coverage including environmental liability is purchased from commercial insurance carriers. 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 06/01/16 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.

(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 allowed 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 Homestake 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 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 Homestake Visitor Center, Inc. and Black Hills State University. Given the construction budget of the (SLHVC) and the Jonas Science Building renovation costs, it was not possible to undertake the upgrades to the Yates Dry. 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. After the above projects were finished approximately \$1,000,000 remains. On June 23, 2016 the sixth amendment was signed allowing the Authority to use the remaining funds to purchase real estate known as "Ellison Hill" and to conduct needed environmental assessments and remediation of the property. This will provide needed storage and construction material laydown space for the (LBNF) and (DUNE) projects.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

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

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 \$3,694,068. 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. for exhibit design and fabrication. Included was a sculptural model of the SURF landscape and underground tunnel network. The project has been completed and ownership has been transferred to the Homestake Visitor Center Inc.

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 2017. This project is located in the new Ross Campus laboratory at the 4850' Level. Another underground facility was completed as a laboratory for Black Hills State University to support low background counting activities, biology study workstations, and other future small scale experiments. Contracts have been signed with both institutions whereby each will pay the Authority for reasonable energy costs and any other specific needed supplies. 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 was increased to \$2,745,167. 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 \$243,992 and \$206,036 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 \$198,000; somewhat lower than last year's actual due to decreasing Homestake water to be treated. The term of the contract runs to September 30, 2020.

A lease between the Authority and Department of Energy (DOE) for land (above ground) and space (underground) for the Long Baseline Neutrino Facility (LBNF) was signed on March 29, 2016. The term of the lease goes through April 30, 2036, but shall remain in force thereafter from year to year without further notice, but shall in no event extend beyond a total of 65 years. An easement was signed with Homestake Mining Company for the construction and maintenance of conveyor facilities for the transportation of excavated rock to the Open Cut (open mine pit) owned by Homestake. The Long Baseline Neutrino Facility will include a large experimental facility underground at the 4850'L. Waste rock excavated from that level will be deposited into the Open Cut. An additional easement was negotiated with the City of Lead across their property to construct, maintain, and operate this overhead conveyance system.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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

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 partnership with the Authority, the South Dakota Community Foundation, the South Dakota State University Foundation, and the University of South Dakota Foundation to assist with the costs of infrastructure/laboratory upgrades, procurement of xenon for future "Dark Matter" experiments, and interest payments to these foundations. \$4,000,000 has been received from the State as well as \$2,000,000 from the South Dakota Community Foundation. Loan agreements are in place between the Authority and the three foundations for a total of \$6,000,000 to be used for the purchase of xenon for the future LZ experiment. The loans extend to the last quarter of 2026. They are unsecured nonrecourse loans with 2.5% simple interest to be paid quarterly to each lender. The loans 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 Process

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 \$19,258,934 of construction work in progress at June 30, 2016, consisted of \$17,665,235 of accumulated costs for the Ross Shaft rehabilitation project, \$838,475 for the (CASPAR) experiment development, \$545,396 for LZ facility upgrades, and \$209,828 for a water inflow pipe system project. 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, 2016 is approximately 7,983,086. These commitments are to be paid for using current funds that have been redirected from the Sanford Gift #2 as well as the \$12,000,000 funding for the LZ infrastructure/laboratory upgrades, and xenon procurement.

(10) Continuing Operations

The DOE's 2017 budget includes approximately \$14 million to fund basic operations at the Sanford Lab. This basic operations funding is being transitioned through FNAL (Fermi National Accelerator Laboratory). A three-month bridge contract for \$3,624,224 has been approved by FNAL for support for October through December 2016. Further negotiations are in process for a five-year contract for DOE operations funding starting January 2017. Additionally, Authority support for the LUX/Zeplin experiment design has been extended to September 2018. 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). LBNF construction could start as early as the middle of 2017 with the experiment running through approximately 2040.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

(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 with amendments is for \$395,000 and extends to January 3, 2019. For the period of July 1, 2015 – June 30, 2016, he was paid \$70,039.22 for his consulting services. Mr. Wheeler will assist in directing the state and federal government affairs programs for the Authority. Furthermore, 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 *

	2014	2015
Authority's proportion of the net pension liability (asset)	0.5287996%	0.5089089%
Authority's proportionate share of net pension liability (asset)	\$ (3,809,788)	\$ (2,158,428)
Authority's covered employer payroll	\$ 8,888,749	\$ 9,042,866
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	42.86%	23.87%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107%	104.1%

* 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, the Authority presents information for those years for which information is available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
South Dakota Retirement System
Last 10 Fiscal Years *

	2015	2016
Contractually required contribution	\$ 557,420	\$ 573,626
Contributions in relation to the contractually required contribution	\$ 557,420	\$ 573,626
Contribution deficiency (Excess)	\$ -	\$ -
Authority's covered employer payroll	\$ 9,042,866	\$ 9,256,007
Contributions as a percentage of covered employee payroll	6.16%	6.20%

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

SUPPLEMENTAL INFORMATION

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

Personal Services	
Employee Salaries	\$ 7,513,435
Employee Benefits	3,225,968
Total Personal Services	\$ 10,739,403
Travel	
Meals and Lodging	43,869
Auto and Fleet Services	30,920
Air - Commercial and Charter	51,405
Incidentals to Travel	2,752
Non-Employee Travel	64,960
Meals (Not Overnight)	65
Total Travel	\$ 193,971
Contractual Services	
Equipment Rental	106,797
Contractual - Other	7,364,751
Insurance	395,261
Lobbying	215,000
Computer Services	209,587
Telecommunications	48,729
Monitoring and Programming	75,070
Legal Consultant	58,972
Training	27,474
Consultant Fees - Accounting and Auditing	16,897
Promotion and Advancement	14,975
Dues and Memberships	5,039
Utilities	2,230,288
Maintenance and Repairs	1,151,253
Total Contractual Services	\$ 11,920,093
Supplies, Materials and Other Operating Expenses	
Maintenance and Repairs	1,393,801
Other Supplies and Equipment	747,635
Other Expenses	3,888
Office Supplies and Equipment	22,058
Safety	8,452
Licenses and Permits	38,274
Workshop and Registration Fees	33,882
Postage	2,551
Bank Charges	623
Total Supplies, Materials and Other Operating Expenses	\$ 2,251,164
Amortization Expense	177,367
Depreciation Expense	1,878,181
Total Operating Expenses	\$ 27,160,179

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

	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	159,490
<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	14,255,564
<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	115,510
<i>U.S. Department of Energy</i>			
Pass-Through the Regents of the University of California LUX/Zeplin (LZ) Cryogenic System Integration and Installation	7255146	81.7255146	181,961
<i>U.S. Department of Energy</i>			
Pass-Through the Regents of the University of California SURF (Sanford Underground Research Facility) Ross Shaft Rehab	7262800	81.7262800	2,033,621
<i>U.S. Department of Energy</i>			
Pass-Through the Regents of the University of California LBNL Kismet Project	7289931	81.7289931	2,905
<i>U.S. Department of Energy</i>			
Pass-Through University of North Carolina at Chapel Hill Conceptual Design for Majorana Demonstrator	5044819	81.5044819	13,358
<i>U.S. Department of Energy</i>			
Pass-Through Oak Ridge National Laboratory Experiment Support for Majorana Demonstrator	4000144149	81.40001441	14,536
<i>National Science Foundation:</i>			
Pass-Through Regents of the University of Minnesota Mathematical and Physical Sciences	A003778902	47.049	1,581
<i>U.S. General Services Administration:</i>			
Pass-Through South Dakota Federal Property Agency		39.003	216,201
Total			\$ 16,994,727