

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

AUDIT REPORT

Fiscal Year Ended June 30, 2014



State of South Dakota
Department of Legislative Audit
427 South Chapelle
c/o 500 East Capitol
Pierre, SD 57501-5070

SOUTH DAKOTA SCIENCE & TECHNOLOGY AUTHORITY
AUTHORITY OFFICIALS
June 30, 2014

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

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 ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 13, 2014.

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.

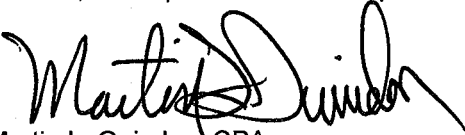
Compliance and Other Matters

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.

A handwritten signature in black ink, appearing to read "Martin L. Guindon", with a stylized, cursive script.

Martin L. Guindon, CPA
Auditor General

November 13, 2014

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

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

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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MARTIN L. GUINDON, CPA
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 ended June 30, 2014, 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 opinion.

Opinions

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, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

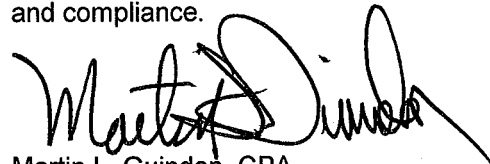
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 6 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The Schedule of Operating Expenses listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014 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

November 13, 2014

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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, 2014 (FY 2014). 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, Expenses and Changes in Net Position, Cash Flows, and Schedule of Operating Expenses. 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, 2014**

FINANCIAL HIGHLIGHTS:

- Total assets at year end decreased to \$108,124,331.
- Current and Other Assets decreased by \$6,063,600, 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 \$4,634,348. Page 9 details the major capital asset additions. Furthermore, page 20 summarizes the changes in capital assets by major categories. Notable increases primarily affected the Improvements in Progress designation including the Ross Shaft Rehabilitation project. The lease through AmWest, Inc. – Hydro Resources that was renegotiated in January 2013 from an operating lease includes transference of property to the lessee at the end of the lease term on January 1, 2018. The rental payments are being directly charged to the Federal Government through the Lawrence Berkeley National Laboratory subcontract #6994297 as the pumping system is a significant component of the subcontract work scope. Per the subcontract, the pumping system will become the property of the Federal Government at the end of the lease period. The equipment will be fully amortized over the period of the lease at which time it will be removed (along with the lease liability) from the Authority's balance sheet.
- Total liabilities at year end increased to \$2,519,524, 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 in accounts payable were also noted for two engineering firms charged with the ongoing Long Baseline Neutrino Experiment (LBNE) project. Yet, Long-Term Liabilities decreased for the capital lease liability on the deep pump system.
- Total net position at year end decreased to \$105,604,807.
- Total restricted net position decreased to \$27,206,266, 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.
- Unrestricted net position increased to \$5,603,288.
- Charges for Services decreased slightly to \$178,008. Revenue from Homestake decreased slightly due to less water being treated and discharged for Homestake.
- Operating Grants increased to \$16,004,934. The revenue received in this classification includes \$13,906,781 received from Lawrence Berkeley National Laboratory, \$1,849,545 from Fermi National Lab, and \$248,608 from the SD Governor's Office of Economic Development (GOED) and various smaller universities.
- Capital Grants and Contributions decreased to \$2,030,000 (down \$13,093,767 from the prior year). The revenue received in this category includes \$2,000,000 from State Legislature for the Ross Shaft Rehabilitation project as well as \$30,000 received from Lawrence County earmarked for the Sanford Visitor Center project.
- Earnings on investments increased slightly to \$510,356 compared to \$362,350 in the previous year.
- Total expenses for the Authority were \$20,539,376 which represents an increase of 17.63% from the previous year. Of this \$20,539,376 the major expenses were for personal services – 49 percent, contractual services – 28.3 percent, and supplies, materials, and operating expenses – 9.2 percent. Included in Authority expenses is \$607,859 expended on the Sanford Lab Visitor Center (SLVC) currently under construction. The MOU (Memorandum of Understanding) between the Lead Area Chamber of Commerce and the Authority stipulates that the (SLVC) is to be the property of and be operated by the Lead Area Chamber of Commerce. Thus costs associated with this project are being expensed rather than capitalized. The (SLVC) will provide an additional location for education and outreach programs related to the ongoing science at the Sanford Lab.
- Net position decreased by \$1,706,829 for fiscal year 2014.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2014

FINANCIAL STATEMENT ELEMENTS:

NET POSITION

	2014	2013	Dollar Change	Percent Change
Current and Other Assets	\$ 34,693,186	\$ 40,756,786	\$ (6,063,600)	-14.88%
Capital Assets	73,431,145	68,796,797	4,634,348	6.74%
Total Assets	108,124,331	109,553,583	(1,429,252)	-1.30%
Long-Term Liabilities Outstanding	747,623	913,585	(165,962)	-18.17%
Other Liabilities	1,771,901	1,328,362	443,539	33.39%
Total Liabilities	2,519,524	2,241,947	277,577	12.38%
Net Position:				
Net Investment in Capital Assets	72,795,253	67,994,959	4,800,294	7.06%
Restricted	27,206,266	34,732,421	(7,526,154)	-21.67%
Unrestricted	5,603,288	4,584,257	1,019,031	22.23%
Total Net Position	\$ 105,604,807	\$ 107,311,636	\$ (1,706,829)	-1.59%

CHANGE IN NET POSITION

	2014	2013	Dollar Change	Percent Change
Revenues				
Program Revenues:				
Charges for Services	\$ 178,008	\$ 195,877	\$ (17,869)	-9.12%
Operating Grants	16,004,934	14,621,507	1,383,427	9.46%
Miscellaneous	109,249	75,060	34,189	45.55%
Capital Grants and Contributions	2,030,000	15,123,767	(13,093,767)	-86.58%
General Revenues:				
Investment Earnings	510,356	362,350	148,006	40.85%
Total Revenue	18,832,547	30,378,561	(11,546,014)	-38.01%
Program Expenses:				
Science and Technology Authority	20,539,376	17,460,763	3,078,613	17.63%
Total Expenses	20,539,376	17,460,763	3,078,613	17.63%
Change in Net Position	(1,706,829)	12,917,798	(14,624,627)	-113.21%
Net Position-Beginning	107,311,636	94,393,838	12,917,798	13.69%
Net Position-Ending	\$ 105,604,807	\$ 107,311,636	\$ (1,706,829)	-1.59%

By June 30, 2014, the Authority had invested \$73,431,145 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 \$73,431,145 (approximately 30% of this total value) was donated by Barrick Gold. This amount represents a net increase (including additions and deductions) of \$4,634,348, or 6.74 percent, over the last year.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2014

CAPITAL ASSETS (Net of Depreciation)

	2014	2013	Change
Improvements	\$ 30,618,184	\$ 31,491,623	\$ (873,439)
Underground	17,055,422	16,760,529	294,893
Buildings	5,907,205	6,052,958	(145,753)
Computer Equipment	17,147	78,775	(61,628)
Equipment	6,993,791	7,058,588	(64,797)
Construction in Progress	9,679,529	4,140,656	5,538,873
Land	1,534,038	1,534,038	-
Infrastructure	1,486,033	1,524,640	(38,607)
Furniture	44,931	50,076	(5,145)
Archive Material	70,000	70,000	-
Auto	24,865	34,915	(10,050)
Total Capital Assets	\$ 73,431,145	\$ 68,796,798	\$ 4,634,347

This year's major capital asset additions included:

Purchased Capital Assets:

J.H. Fletcher Telescopic Feed Roof Bolter	\$ 546,643
IT Generator Concrete Pad	6,640
IT Generator Installation	28,056
Yates Loading Dock	7,040
ERT Enclosed Trailer	11,200
(2) Kubota Diesel Welders	20,890
Olympus 1000i Digital Ultrasonic Flaw Detector	11,743
Chem-Grout Machine Pump	5,910
Hitachi Projector	13,228
Apple Mac Pro 32GB Computer	5,170

Improvements (Current Year Additions):

Underground Mitigation Improvements	294,893
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Improvements in Progress (Current Year Additions):

Ross Shaft Rehabilitation	5,093,443
Davis Campus Dehumidification System	529,720
CASPAR Facility Development	337,700

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2014

LONG-TERM DEBT

At the year-end, the Authority had \$747,623 in other long-term obligations. This is a decrease of 18.17 percent as shown below.

	2014	2013	Total Dollar Change	Total Percentage Change
Compensated Absences	\$ 284,439	\$ 277,693	\$ 6,746	2.43%
Capital Acquisition Lease	463,184	635,892	(172,708)	-27.16%
Total	\$ 747,623	\$ 913,585	\$ (165,962)	-18.17%

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 21 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 NSF 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 outlines 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 2014 of \$18,544,082 towards the Ross Shaft Rehabilitation project, Yates Shaft improvements, underground hazard mitigation projects, as well as a few smaller capital projects. Additional projects included the purchase of Xenon Gas for G2-LZ, experiment development on the 4850-foot level for the Compact Accelerator System for Performing Astrophysical Research (CASPAR), as well as partial funding for the Black Hills State University Jonas Science Building renovation and design and construction of the Sanford Lab Visitor Center to be located above the Open Cut in Lead. Actual expenditures only totaled \$9,068,240 as several of these projects approved funding extend into fiscal year 2015. 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

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2014

ECONOMIC FACTORS (Continued)

agreed that any part of Gift No. 2 not used for the above projects could be used for additional underground laboratory space and related infrastructure to access and support laboratory spaces through the shaft. Moreover, the \$2,000,000 that was received in July 2013 from the SD State Legislature was expended on the designated Ross Shaft Rehab project. The Authority's Board of Directors (with an additional approval) endorsed a budget of \$804,041 in favor of Authority supported activities. Actual expenses totaled \$779,375. Thus, the Authority stayed within their budget allotment for the year.

- Additionally, an operations budget of \$13,443,796 had been approved to manage and operate the facility for the federal fiscal year October 2013 – September 2014. Modifications to Subcontract No. 6994297 were signed with Lawrence Berkeley National Laboratory for this additional DOE funding. Actual expenditures were \$13,344,633. Thus, the Authority stayed within their budget allotment for the federal fiscal year.
- Further funding was received in fiscal year 2014 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 signed with Fermi National Accelerator Laboratory (FNAL) in fiscal year 2013 extended into fiscal year 2014 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 signed in fiscal year 2014 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. Support continues into fiscal year 2015 for the (LBNE) project.
- Additional funding was received during the fiscal year from various institutions including University of Notre Dame, Case Western University, University of North Carolina, and the University of Minnesota. Funds were received at SURF to support expenditures related to the DIANA project (Dual Ion Accelerators for Nuclear Astrophysics), 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 2015 from all institutions except University of Notre Dame.
- The Authority's fiscal year 2015 capital budget provides for spending \$18,321,715. A large portion of this budget was previously approved in fiscal year 2014 but was not spent. Projects include the Ross Shaft Rehabilitation project, Yates Shaft improvements, and underground hazard mitigation projects. Additional projects include continued (CASPAR) experiment development and facility development on the 4850-foot level as well as an underground facility for Black Hills State University. Further projects involve partial funding for the Black Hills State University Jonas Science Building renovation and design and the ongoing construction of the Sanford Lab Visitor Center in Lead. Funding for these projects will come primarily from the Sanford funds including a portion of Gift No. 2. The Authority's Board of Directors also approved a budget of \$736,569 in favor of Authority supported activities.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) JUNE 30, 2014

ECONOMIC FACTORS (Continued)

- The Fourth Amendment to the Homestake Gift Agreement stipulates 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, whereby we will be reimbursed for incurred construction costs associated with both of these projects. This \$2 million will most likely be reimbursed in fiscal year 2015. An additional \$500,000 was received in July 2014 from Great Plains Education Foundation to finalize our monetary obligations.
- 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 are required. 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 to be extended to BHSU on a reimbursement schedule.
- Additionally, an operations budget of \$13,505,500 has been approved to manage and operate the facility for the federal fiscal year October 2014 – September 2015. Modification No. 26 to Subcontract No. 6994297 has been signed with Lawrence Berkeley National Laboratory extending the subcontract through September 30, 2015.
- 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, 2014**

ASSETS

Current Assets

Cash in Local Bank and Petty Cash	\$ 578,249
Cash on Deposit with State Treasurer	28,715,125
Accounts Receivable	1,775,613
Interest Receivable	103,888
Prepaid Expenses	574,512
Inventory of Supplies & Warehouse	2,945,799
Total Current Assets	34,693,186

Noncurrent Assets

Land	1,534,038
Underground	17,055,422
Improvements in Progress	9,679,529
Buildings, Machinery, Equipment and Infrastructure (Net) (Note 3)	45,162,156
Total Noncurrent Assets	73,431,145

TOTAL ASSETS **\$ 108,124,331**

LIABILITIES

Current Liabilities

Accounts Payable	\$ 992,194
Accrued Wages and Benefits	322,560
Accrued Leave, Benefits, and Capital Acquisition Lease (Note 4)	457,147
Total Current Liabilities	1,771,901

Long-Term Liabilities

Accrued Leave, Benefits, and Capital Acquisition Lease Net of Current Portion (Note 4)	747,623
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TOTAL LIABILITIES **2,519,524**

NET POSITION

Net Investment in Capital Assets	72,795,253
Restricted for:	
Mine Closure	1,367,000
Indemnification	10,000,000
Interim Lab-Sanford	9,262,521
Sanford Center for Science Education	6,576,745
Unrestricted Net Position	5,603,288

TOTAL NET POSITION **\$ 105,604,807**

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, 2014**

Operating Revenue	
Charges for Goods and Services	\$ 178,008
Operating Grants	16,004,934
Miscellaneous	109,249
Total Operating Revenue	16,292,191
Operating Expenses	
Personal Services	10,070,675
Travel	110,806
Contractual Services	5,811,825
Supplies, Materials and Other Operating Expenses	1,899,586
Amortization Expense	165,947
Depreciation Expense	1,672,656
Total Operating Expenses	19,731,495
Operating Loss	(3,439,304)
Nonoperating Revenues	
Interest Revenue	510,356
Other Expense	(807,881)
Total Nonoperating Revenues	(297,525)
Loss Before Capital Grants	(3,736,829)
Capital Grants	2,030,000
Change in Net Position	(1,706,829)
Net Position -- Beginning of Year	107,311,636
Net Position -- End of Year	\$ 105,604,807

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, 2014**

Cash Flows from Operating Activities:

Other Operating Cash Receipts	\$ 268,248
Cash Receipts from Operating Grants	15,280,753
Cash Payments to Employees for Services	(10,051,894)
Cash Payments to Suppliers of Goods and Services	(8,046,937)
Net Cash Used in Operating Activities	(2,549,830)

Cash Flows from Noncapital Financing Activities

Donations Received	30,000
Grants Paid	(377,971)
Net Cash Used in Noncapital Financing Activities	(347,971)

Cash Flows from Capital and Related Financing Activities:

Grant Revenue	2,000,000
Purchase of Capital Assets	(6,413,405)
Principal Paid on Capital Debt	(165,947)
Interest Paid on Capital Debt	(29,053)
Proceeds from Sale of Capital Assets	665
Net Cash Used in Capital and Related Financing Activities	(4,607,740)

Cash Flows from Investing Activities:

Interest Earnings	484,091
Net Cash Provided by Investing Activities	484,091

Net Decrease in Cash and Cash Equivalents (7,021,450)

Cash and Cash Equivalents at Beginning of Year 36,314,824

Cash and Cash Equivalents at End of Year \$ 29,293,374

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

Operating Loss	\$ (3,439,304)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Depreciation & Amortization Expense	1,838,603
<i>Change in Assets and Liabilities:</i>	
Receivables	(743,190)
Prepaid Expenses	(16,506)
Inventory of Supplies	(326,187)
Accounts and Other Payables	117,973
Accrued Wages Payable	5,289
Accrued Leave Payable	13,492
Net Cash Used in Operating Activities	\$ (2,549,830)

Continued on next page.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

Cash and Cash Equivalents:

Cash in Local Bank	\$ 578,199
Petty Cash	50
Cash with State Treasurer	28,715,125
Total Cash and Cash Equivalents	\$ 29,293,374

Non-Cash Non-Capital, Capital, Investing and Related Financing Activities:

Loss on Disposal of Assets	\$ 143,387
Donations from Prior Construction in Progress	45,284
Share of Investment Council Costs	27,582

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

(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, 2014**

(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, 2014

(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.

(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, 2014.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

(3) Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Reclassified*	Increases	Decreases	Balance June 30, 2014
Business-Type Activities:					
Capital Assets, not Being					
Depreciated:					
Land	\$ 1,534,038	\$ -	\$ -	\$ -	\$ 1,534,038
Underground	16,760,529	-	294,893	-	17,055,422
Archive Materials	70,000	-	-	-	70,000
Construction Work in Progress (Note 8)	4,140,656	(473,983)	6,012,856		9,679,529
Total Capital Assets, not Being Depreciated	22,505,223	(473,983)	6,307,749	-	28,338,989
Capital Assets, Being					
Depreciated:					
Equipment Under Capital Lease	883,945	-	-	-	883,945
Automobiles	79,255	-	-	-	79,255
Buildings	7,223,086	-	-	-	7,223,086
Furniture	74,212	-	-	-	74,212
Computer Equipment	357,295	-	5,170	-	362,465
Improvements	33,812,540	-	-	-	33,812,540
Infrastructure	1,658,242	-	-	-	1,658,242
Machinery and Equipment	7,927,064	428,699	222,651	25,159	8,553,255
Total Capital Assets, Being Depreciated	52,015,639	428,699	227,821	25,159	52,647,000
Total Capital Assets, Before Depreciation	74,520,862	(45,284)	6,535,570	25,159	80,985,989
Less Accumulated Depreciation:					
Equipment Under Capital Lease	82,106	-	165,947	-	248,053
Automobiles	44,340	-	10,050	-	54,390
Buildings	1,170,128	-	145,752	-	1,315,880
Computer Equipment	278,520	-	66,798	-	345,318
Furniture	24,135	-	5,145	-	29,280
Improvements	2,320,918	-	873,439	-	3,194,357
Infrastructure	133,602	-	38,607	-	172,209
Machinery and Equipment	1,670,315	-	532,864	7,823	2,195,357
Total Accumulated Depreciation	5,724,064	-	1,838,603	7,823	7,554,844
Capital Assets, Net	\$ 68,796,798	\$ (45,284)	\$ 4,696,967	\$ 17,336	\$ 73,431,145

*Reclassifications are due to the Authority performing analysis of assets that were previously grouped in Construction Work in Progress as well as Sanford Lab Visitor Center project costs transferred as a contribution. A bolter for use in the underground was placed in service as of June 30, 2014.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

(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	\$ 555,386	\$ 519,912	\$ 506,420	\$ 568,878	\$ 284,439
Capital Acquisition Lease	801,839	-	165,947	635,892	172,708
Total	\$ 1,357,225	\$ 519,912	\$ 672,367	\$ 1,204,770	\$ 457,147

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%. **\$ 635,892**

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, 2014, are as follows:

		Capital Acquisition Lease	
		Interest	Principal
2015	\$	22,292	\$ 172,708
2016		15,256	179,744
2017		7,933	187,067
2018		1,127	96,373
Total	\$	46,608	\$ 635,892

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

Gross amount of assets under capital lease	\$	883,945
Accumulated amortization		248,053
	\$	635,892

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

Principal	\$	883,945
Interest		91,055
Total	\$	975,000

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

(5) Retirement Plan

The Authority participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a financial report available to the public that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

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, 2014, 2013 and 2012 was \$555,598, \$548,269, and \$485,492, respectively, equal to the required contributions each year.

(6) 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, 2014, 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 June 1, 2014, 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.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

(6) Risk Management (Continued)

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.

(7) 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 is 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 must agree in writing to incorporate and use the name "Sanford" in the naming of the facilities. Furthermore, no funds may be spent on any part of these projects until 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 (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. It is anticipated that the operating costs of the Yates Dry Building (not yet under construction), to be renamed the Sanford Education Building, will be provided as part of the U.S. Department of Energy budget or other federal funding. 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 directly to the subcontract with LBNL.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **JUNE 30, 2014**

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

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. Construction began in July 2014 and is to be completed in April 2015. An additional contract was signed with Situ Fabrication for \$75,000 for a sculptural model of the SURF landscape and underground tunnel network. Various exhibits will be installed in the Spring of 2015 for an estimated opening date of June 1, 2015.

A contract was signed in early January 2014 with the South Dakota School of Mines and Technology (SDM&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 2015. This project will be located in a new underground laboratory at the 4850' Level near the Ross Shaft. Another underground facility is also planned in close proximity to this laboratory for Black Hills State University to support low background counting activities, biology study workstations, and other future small scale experiments. A contract with Dean Kurtz Construction for \$2,668,062 has been entered into for the design and outfitting of both facilities. Authority crews continue to install ground support in these areas and outfitting construction is planned to begin in early January, 2015, with a completion date of late Spring 2015.

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 \$195,877 and \$178,008 respectively. Revenue was lower this last year due to the number of gallons treated being slightly less. 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 higher than last year's actual due to increasing Homestake water to be treated. The term of the contract runs to September 30, 2020.

(8) 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 \$9,679,529 of construction work in progress at June 30, 2014, consisted of \$8,760,116 of accumulated costs for the Ross Shaft rehabilitation project, \$529,720 for the Davis Campus dehumidification system, \$367,934 for the (CASPAR) experiment and facility development, \$12,044 for a work deck, \$9,241 for a HVAC unit, and \$474 towards a mix tank for the water treatment plant. 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, 2014 is approximately \$9,300,935. These commitments are to be paid for using current accumulated funds that have been redirected from the Sanford Gift #2, the Future Fund grant received from the State in October 2013, as well as private fund raising activities.

(9) Continuing Operations

The DOE's 2015 budget includes approximately \$13.5 million to fund basic operations at the Sanford Lab. Modification No. 26 to Subcontract No. 6994297 was signed on October 29, 2014, with LBNL extending the period of performance to September 30, 2015. Another small subcontract with LBNL is still in place to fund Authority support for the LUX (Large Underground Xenon) experiment. Modification No. 13 extended the period of performance through December 30, 2015. Additionally, Authority support for the LUX/Zepplin experiment design has been extended to April 30, 2015. Further support for designs for underground and surface needs for the LBNE (Long Baseline Neutrino Experiments) are in place with subcontracts through FNAL (Fermi National Accelerator Laboratory). The preferred site for the detector per the scientific community is underground. An LBNE collaboration meeting was held July 30 – August 1, 2014, at Fermilab to clarify the path forward for LBNE

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **JUNE 30, 2014**

(9) Continuing Operations (Continued)

following the (P5) report from May. The LBNE collaboration is being reformulated to include additional international participation. Discussions are currently underway with international collaborators to gain funding towards putting a LBNE detector underground at SURF. LBNE 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 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 being planned underground. The Authority has pledged initial support of \$999,334 towards experiment development and along with private funding sources will spend approximately \$3.2 million towards facility development. The facility also includes a laboratory for Black Hills State University. Chilled water and power distribution will be shared by both groups to reduce costs.

(10) 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 as a full-time employee of the Authority until January 3, 2014, at which time he retired from full-time employment. For the period of July 1, 2013 through January 3, 2014, Mr. Wheeler was paid \$128,083.45 in wages, benefits, and travel. 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 January 3, 2014 through June 30, 2014, he was paid \$64,180.34 on this contract. 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.

SUPPLEMENTAL INFORMATION

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

Personal Services	
Employee Salaries	\$ 7,137,108
Employee Benefits	2,933,567
Total Personal Services	10,070,675
Travel	
Meals and Lodging	27,437
Auto and Fleet Services	32,043
Air - Commercial and Charter	25,753
Incidentals to Travel	1,449
Non-Employee Travel	23,922
Meals (Not Overnight)	202
Total Travel	110,806
Contractual Services	
Equipment Rental	122,290
Contractual - Other	2,154,032
Insurance	393,209
Lobbying	211,000
Computer Services	148,244
Telecommunications	51,141
Monitoring and Programming	90,624
Legal Consultant	38,316
Training	32,007
Consultant Fees - Accounting and Auditing	10,659
Promotion and Advancement	16,766
Dues and Memberships	2,971
Utilities	1,847,224
Maintenance and Repairs	693,342
Total Contractual Services	5,811,825
Supplies, Materials and Other Operating Expenses	
Maintenance and Repairs	767,423
Other Supplies and Equipment	986,344
Other Expenses	4,293
Office Supplies and Equipment	27,064
Safety	47,252
Licenses and Permits	40,799
Workshop and Registration Fees	22,960
Postage	2,936
Bank Charges	516
Total Supplies, Materials and Other Operating Expenses	1,899,586
Amortization Expense	165,947
Depreciation Expense	1,672,656
Total Operating Expenses	\$ 19,731,495