



SIoux FALLS REGIONAL AIRPORT



2019 Annual Report

Letter from the Chair

The Sioux Falls Regional Airport continues to grow and mature as a regional transportation hub for the tri-state area. Passenger traffic grew an impressive 9.3% setting an all-time record with 1,165,599 travelers with local enplanements totaling 582,500. A growing economy along with competitive/affordable fares pushed traffic to record levels. New service to Punta Gorda, FL (Ft. Meyers area) along with expanded frequencies to eleven non-stop destinations contributed to the positive trend. The increase in passenger volumes helped drive revenue for the airport as well. Food/Beverage, Hotel, Rental Car, and Gift/Retail saw double digit revenue increases. Parking Revenue, the largest revenue source for the airport, reflected a modest improvement of 6.4% which was impacted by the growth in TNCs as a ground transportation option.

Numerous construction projects were completed or started in 2019 including:

- Expansion of the Baggage Claim Area
- Deicing and Overnight Aircraft Parking Apron
- Rental Car Quick Turn-around Building

Work was completed in October to expand the Baggage Claim Area. This six million dollar project has doubled the public space for passengers waiting for luggage and provides three new slope plate luggage carousels doubling the luggage delivery capacity. The expansion has greatly improved the customer experience for passengers checking luggage and has been well received. In August work began to construct a new concrete apron dedicated for aircraft deicing and the collection of aircraft deicing fluid. The project will also provide additional space for overnight aircraft parking to increase flight capacity for airlines scheduling late night/early morning flights. The \$11 million project is funded with a Federal grant along with a 5% share from the State and airport. Also in August work started on new rental car quick turn-around (QTA) building to replace existing detail bays and car washes used by our rental car operators. The \$5 million project will double the rental car operators ability to clean returned cars that are available to rent in a shorter time span. The project is funded with airport reserves but will be reimbursed through the collection of a Customer Facility Charge applied to rental car customers.

Airport leadership continues to work for improved air service options that produced several new route opportunities in 2019. New service on Allegiant took place in the fall of 2019 with several new routes announced for 2020. Summary of new service announcements:

- New seasonal service to Punta Gorda, FL on Allegiant Airlines.
- New seasonal service to Nashville on Allegiant beginning May 2020.
- New seasonal service to San Diego on Allegiant beginning June 2020.
- Expanded service to Atlanta, Dallas and Phoenix on Delta and American Airlines.

I would like to take this opportunity to thank my fellow Commissioners; Julie Schnaible, Dave Nelson, Lon Stroschein and Eric Ellefson for their service to the community and support throughout the year. I would also like to thank Dan Letellier, Richard King, Kristin Elgersma and our great service and field staff for all of their help and hard work throughout the year.

Sincerely,

Raquel Blount

Raquel Blount, Chair
Sioux Falls Regional Airport Authority

Sioux Falls Regional Airport Authority Commissioners



Raquel Blount
Airport Authority-Chair
V.P. Comm. Real Estate – Lloyd Co.



Julie Schnaible
Airport Authority Vice-Chair
Senior V.P., Citibank (Retired)



Dave Nelson
Attorney (Retired)



Lon Stroschein
Dir. Corp. Develop.-Raven Ind.



Eric Ellefson
Managing Partner-Click Rain



Dan Letellier
Executive Director



Richard King
Deputy Director

Construction Projects



Baggage Claim Expansion



Rental Car – Quick Turn-Around Building



Deicing Apron



Deicing Apron

Flight Activity



Sioux Falls Air Show - Thunderbirds



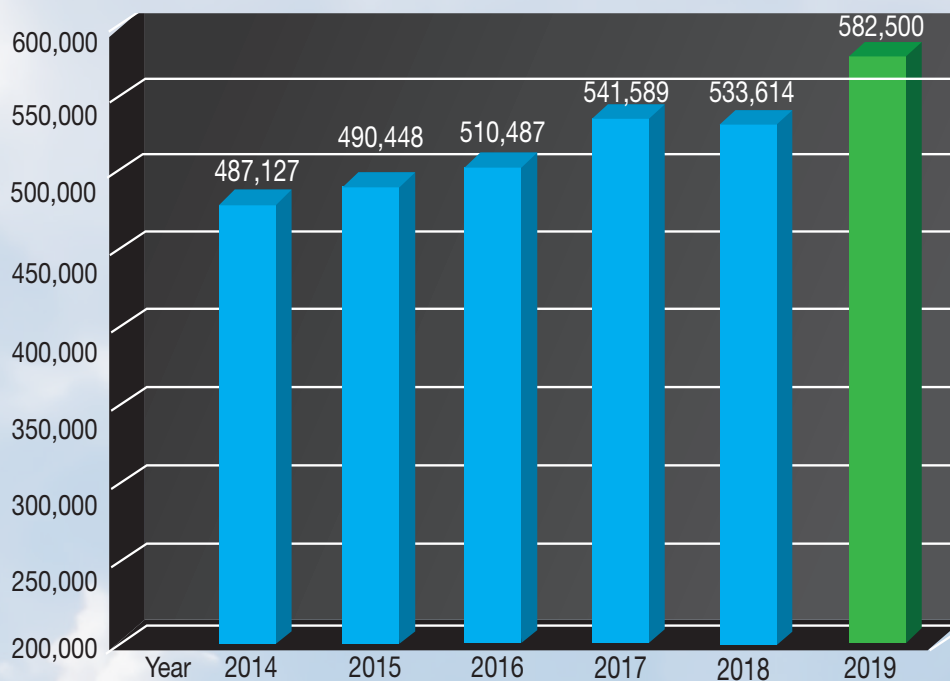
Sioux Falls Air Show - Thunderbirds



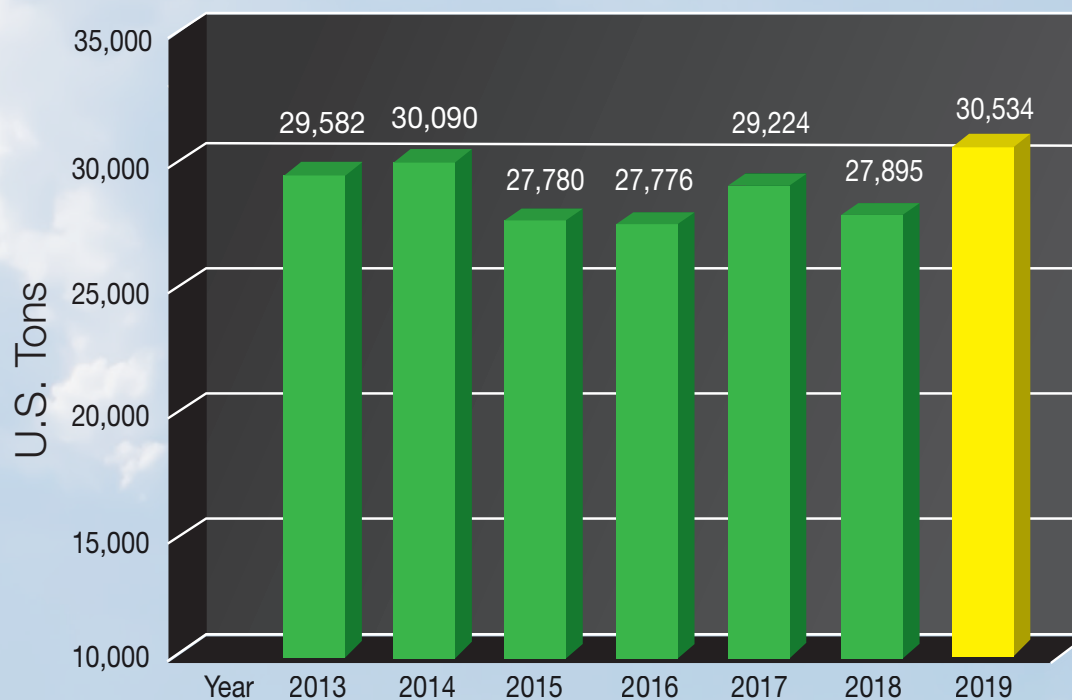
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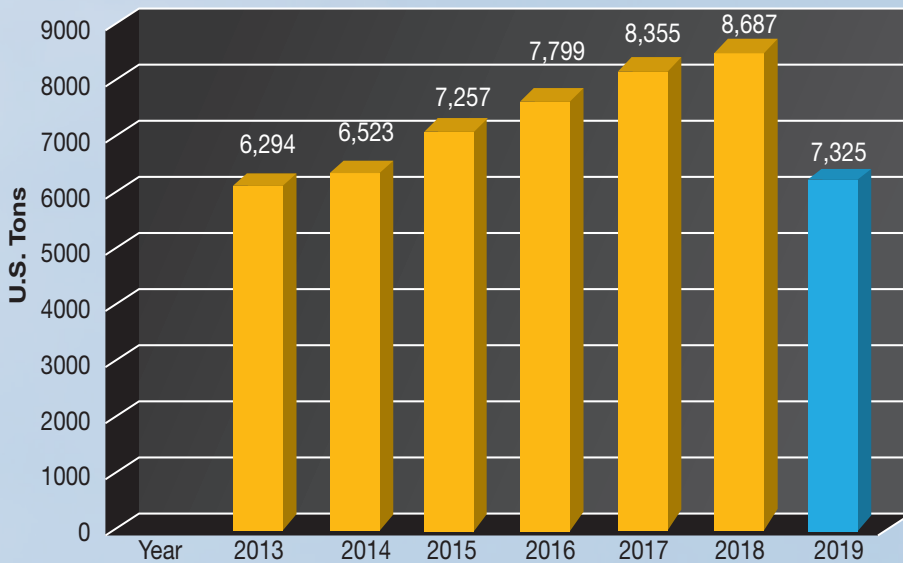
Passenger Enplanements



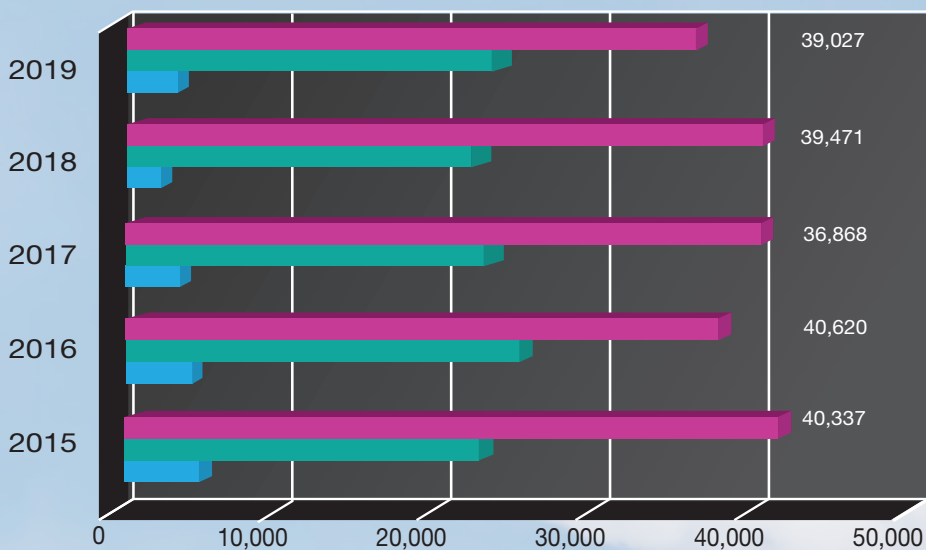
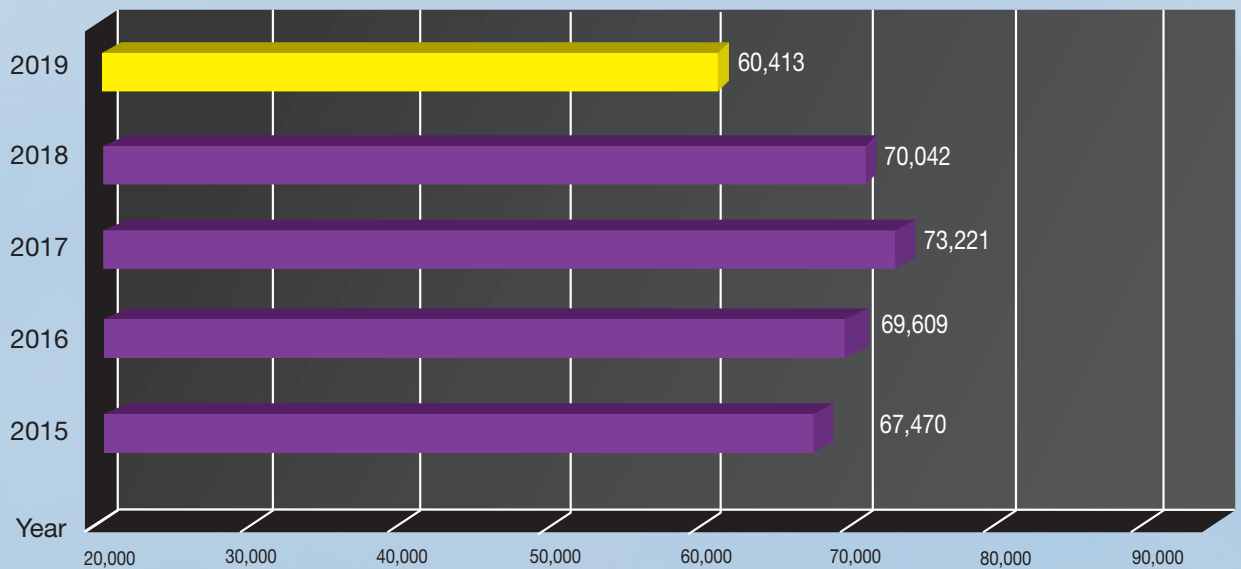
Freight Activity



Mail Carried



Traffic Operations



Air Traffic Movements

Management's Discussion and Analysis

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. These financial statements include three required statements and the accompany notes to the financial statements.

The Statements of Net Position provides information about the liquidity and solvency of the Authority by indicating the nature and the amounts of investments in resources (assets), its deferred outflows of resources, obligations to Authority creditors (liabilities), its deferred inflows of resources and its resulting net position. Net position represents the amount of total assets, plus deferred outflows of resources, less total liabilities, less deferred inflows of resources. The organization of the statement separates assets and liabilities into current and non-current components.

The Statements of Revenues, Expenses, and Changes in Net Position provides information for all of the revenues and expenses in order to measure the success of the Authority's operations over the past year. This statement is organized by separating operating revenues and expenses from nonoperating revenues and expenses. Transactions which are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as components of nonoperating revenues.

The Statements of Cash Flows provides information about the net change in the Authority's cash and cash equivalents and is presented using the direct method of reporting. It provides information about the Authority's cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. Cash receipts and payments are presented in this statement to arrive at the net increase or decrease in cash and cash equivalents for each year.

These statements provide long-term and short-term information about the Authority's financial status. These statements are accompanied by a complete set of Notes to the Financial Statements that communicate information essential for fair presentation of the basic financial statements. As such, the Notes form an integral part of the basic financial statements.

FINANCIAL HIGHLIGHTS

The Sioux Falls Regional Airport recorded one of the busiest year's on record with passenger traffic topping 1,165,599 up 9.3% from the year prior. Passenger enplanements totaled 582,500 up 9.5% setting an all-time record. The jump in traffic drove double digit increases in concession revenue including food/beverage, car rental, retail sales and hotel use. We did see a modest increase in parking revenue of 6.5% which was irrespective of the continued increase in use of Lyft and Uber for ground transportation to/from the airport on passenger's use of parking.

The following tables show the significant changes that have taken place over the past three fiscal years ended December 31, 2019, December 31, 2018 and December 31, 2017.

Changes in Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

	2019	2018	2017
Total Assets			
Capital	\$127,752,099	\$119,527,845	\$109,485,215
Other	26,390,562	25,266,344	18,875,820
	154,142,661	144,794,189	128,361,035
Deferred Outflow of Resources			
Related to pension	349,045	516,951	585,987
Total assets and deferred outflows	\$154,491,706	\$145,311,140	\$128,947,022
Total Liabilities			
Long-term	\$17,915	\$17,142	\$14,942
Other	2,137,150	1,182,371	803,788
	2,155,065	1,199,513	818,730
Deferred Inflow of Resources			
Related to pension	203,183	161,847	130,364
Total liabilities and deferred inflows	\$2,358,248	\$1,361,360	\$949,094
Total Net Position			
Invested in capital assets	\$127,752,099	\$119,527,845	\$109,485,215
Restricted for capital projects	1,712,213	754,050	-
Restricted for pension benefits	153,688	356,717	461,429
Unrestricted	22,515,458	23,311,168	18,051,284
	\$152,133,458	\$143,949,780	\$127,997,928

Changes in Statement of Revenues, Expenses, and Net Position

	2019	2018	2017
Operating Revenues			
Rentals and commissions, net	\$9,140,887	\$8,105,429	\$8,236,055
Landing fees	1,055,511	961,431	903,720
State security reimbursements	128,205	127,840	127,312
Fines, forfeitures and other revenue	76,294	68,063	57,811
	10,400,897	9,262,763	9,324,898
Operating Expenses			
Depreciation	5,472,787	5,141,276	4,827,197
Personnel	2,580,644	2,272,155	1,730,723
Professional services	840,379	794,186	830,202
Utilities and bulk energy	628,726	624,012	548,518
Repairs and maintenance	456,347	339,612	286,784
Supplies and materials	148,896	92,244	125,714
Insurance	174,663	152,365	165,589
Bad debt expense (recovery)	-	-	(17,438)
Other expenses	553,769	404,569	433,963
	10,856,211	9,820,419	8,931,252
Operating (Loss) Income	\$(455,314)	\$(557,656)	\$393,646
Nonoperating Revenues (Expenses)			
Passenger facility charges	\$2,453,168	\$2,295,124	\$2,220,586
Customer facility charges	957,264	822,210	-
Interest and investment income	566,128	365,668	104,503
Taxes, air flight, net	394,832	362,885	427,113
Loss on disposal or retirement of property and equipment	8,095	-	-
Miscellaneous	3,080	47	678
Adjacent property	-	-	-
runway safety area	-	-	(62,027)
	4,382,567	3,845,934	2,690,853
Change in Net Position Before			
Capital Contributions	3,927,253	3,288,278	3,084,499
Capital contributions	4,256,425	12,663,574	8,714,568
Change in Net Position	\$8,183,678	\$15,951,852	\$11,799,067

A significant air field project was started in August that will expand our terminal ramp and provide a dedicated area for aircraft deicing and overnight parking. The \$11 million project began in August and is expected to be completed in August of 2020. The project is funded at 90% with a Federal Airport Improvement grant and 5% from the State of South Dakota. The project will reclaim the deicing fluid and meter it to the water treatment facility in a controlled flow. In addition, the Airport Authority purchased a new high speed runway broom to assist with snow removal efforts at the cost of \$577,959 funded with airport reserves. The unit replaces an older runway broom that was over 35 years old.

In 2019, the largest operating revenue source was parking lot revenue at \$5,116,785 up 6.5% from 2018. The Authority's second largest operating revenue source was airline fees and they are negotiated based on actual costs. The Authority's third largest operating revenue source was car rental commissions, up 20.8% versus the prior year. In 2019, on site-car rental agency revenue reported to the Authority totaled \$17,333,896 resulting in commissions paid to the Authority of \$1,816,752. The dramatic increase in revenue was associated to high rental volume tied to FEMA inspectors assigned to eastern South Dakota's flood recovery.

Parking revenue continued to be impacted in 2019 with the growth in Lyft and now Uber into the ground transportation system. Parking revenue per enplaned passenger was down 2.9% vs. the year prior and 5.3% compared to 2017, the year prior to the introduction of Lyft/Uber. We believe the use of Transportation Network Companies (TNC) is beginning to mature and level out, but has impacted parking revenue by at least 2-3% compared to what would have been expected prior to their entry into the market. The Airport Authority is collecting a \$2.00 trip charge for every pick-up and drop-off which is expected to generate over \$120,000 in fees to the airport for 2020.

The Sioux Falls Regional Airport Authority continues on firm footing as a result of a strong net position and a healthy economy. However, as of this writing, after a very strong start to the year in January and February, there has been a dramatic drop-off in passenger traffic due to the novel corona virus (COVID-19) which is deeply troubling. Federal assistance through the CARE Act will be a significant aid, but revenue shortfalls in excess of 50% are now likely. Fortunately, the Airport Authority has no long-term debt obligations and will be able to weather this significant downturn better than other airports.

Sioux Falls Regional Airport Authority - Statements of Net Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$17,784,723	\$18,056,301
Restricted cash	1,712,213	754,050
Accounts receivable	690,852	687,970
Grants receivable	1,257,540	785,286
Interest receivable	17,453	19,085
Passenger facility charges receivable	403,420	339,165
Customer facility charges receivable	97,608	74,061
Due from related party	-	169,110
Inventories	101,428	119,661
Prepaid expenses	52,752	18,107
Total current assets	22,117,989	21,022,796
Investments		
Certificates of deposit	4,264,747	4,241,935
Other Assets		
Pension asset	7,826	1,613
Capital Assets		
Land	1,152,384	1,152,384
Buildings	62,263,86	56,094,827
Improvements other than buildings	120,187,517	119,570,399
Machinery and equipment	9,477,214	8,855,457
Construction in progress	9,277,463	3,172,674
	202,358,439	188,845,741
Less accumulated depreciation	(74,606,340)	(69,317,896)
Total capital assets	127,752,099	119,527,845
Total assets	154,142,661	144,794,189
Deferred Outflow of Resources		
Related to pension	349,045	516,951
Total assets and deferred outflow of resources	\$154,491,706	\$145,311,140

	2019	2018
Liabilities		
Current Liabilities		
Accounts payable	\$1,944,123	\$1,027,214
Accrued salaries	93,022	80,200
Compensated absences	100,005	74,957
Total current liabilities	2,137,150	1,182,371
Long-Term Liabilities		
Compensated absences - long-term	17,915	17,142
Total liabilities	2,155,065	1,199,513
Deferred Inflow of Resources		
Related to pension	203,183	161,847
Total liabilities and deferred inflow of resources	2,358,248	1,361,360
Net Position		
Invested in capital assets	127,752,099	119,527,845
Restricted for capital projects	1,712,213	754,050
Restricted for pension benefits	153,688	356,717
Unrestricted	22,515,458	23,311,168
Total net position	152,133,458	143,949,780
Total liabilities, deferred inflow of resources, and net position	\$154,491,706	\$145,311,140

Sioux Falls Regional Airport Authority
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018	Dollar Change	Percentage Change
Operating Revenues				
Rentals and commissions, net	\$9,140,887	\$8,105,429	\$1,035,458	12.8%
Landing fees	1,055,511	961,431	94,080	9.8%
State security reimbursements	128,205	127,840	365	0.3%
Fines, forfeitures and other revenue	76,294	68,063	8,231	12.1%
Total operating revenues	10,400,897	9,262,763	1,138,134	12.3%
Operating Expenses				
Depreciation	5,472,787	5,141,276	331,511	6.4%
Personnel	2,580,644	2,272,155	308,489	13.6%
Professional services	840,379	794,186	46,193	5.8%
Utilities and bulk energy	628,726	624,012	4,714	0.8%
Repairs and maintenance	456,347	339,612	116,735	34.4%
Supplies and materials	148,896	92,244	56,652	61.4%
Insurance	174,663	152,365	22,298	14.6%
Other expenses	553,769	404,569	149,200	36.9%
Total operating expenses	10,856,211	9,820,419	1,035,792	10.5%
Operating Income (Loss)	(455,314)	(557,656)	102,342	-18.4%
Nonoperating Revenues (Expenses)				
Passenger facility charges	2,453,168	2,295,124	158,044	6.9%
Customer facility charges	957,264	822,210	135,054	100.0%
Taxes - air flight, net	394,832	362,885	31,947	8.8%
Interest and investment income	566,128	365,668	200,460	54.8%
Miscellaneous	3,080	47	3,033	6453.2%
Gain on disposal or retirement of property and equipment	8,095	-	8,095	100.0%
Total nonoperating revenues	4,382,567	3,845,934	536,633	14.0%
Change in Net Position Before Capital Contributions	3,927,253	3,288,278	638,975	19.4%
Capital Contributions	4,256,425	12,663,574	(8,407,149)	-66.4%
Change in Net Position	8,183,678	15,951,852	(\$7,768,174)	-48.7%
Total Net Position, Beginning of Year	143,949,780	127,997,928		
Total Net Position, End of Year	\$152,133,458	\$143,949,780		

Sioux Falls Regional Airport Authority - Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Cash received by providing services	\$5,664,550	\$4,778,908
Cash received from parking lot customers	4,569,662	4,079,097
Cash received for reimbursements	143,215	116,140
Payments to personnel	(2,338,972)	(2,158,678)
Payments to suppliers	(2,866,280)	(2,482,572)
Net Cash from Operating Activities	5,172,175	4,332,895
Non-Capital Financing Activities		
Proceeds from federal and state grants	394,832	362,885
Adjacent property - runway safety area	169,110	169,109
Other contributions	3,080	61,735
Net Cash from Non-Capital Financing Activities	567,022	593,729
Capital and Related Financing Activities		
Proceeds from contributions	3,784,171	12,183,275
Proceeds from passenger facility charges	2,388,913	2,241,423
Proceeds from customer facility charges	933,717	748,149
Purchases of property and equipment	10,650	-
Net Cash used for Capital and Related Financing Activities	(5,597,560)	525,021
Investing Activities		
Redemptions of certificates of deposit	3,477,188	1,999,136
Purchases of certificates of deposit	(3,500,000)	(2,250,000)
Interest received	567,760	346,583
Net Cash from Investing Activities	544,948	95,719
Net Change in Cash and Cash Equivalents	686,585	5,547,364
Cash and Cash Equivalents at Beginning of Year	18,810,351	13,262,987
Cash and Cash Equivalents at End of Year	\$19,496,936	\$18,810,351

Sioux Falls Regional Airport Authority - Statements of Cash Flows (cont.)

Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:		
Operating Income (Loss)	\$(455,314)	\$(557,656)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:		
Depreciation	5,472,787	5,141,276
Changes in Assets and Liabilities		
Accounts receivable	(2,882)	(205,856)
Inventories	18,233	(20,728)
Prepaid expenses	(34,645)	26,444
Accounts payable	(67,676)	(164,062)
Related to pension	203,029	104,712
Accrued expenses	38,643	8,765
Net Cash from Operating Activities	<u>\$5,172,175</u>	<u>\$4,332,895</u>
Supplemental Disclosure of Noncash Financing Activities		
Capital asset additions included in accounts payable	<u>\$1,731,765</u>	<u>\$747,180</u>

Inventories

Inventories are valued at the lower of cost, (first-in, first-out method) or net realizable value and consist of supplies, fuel and deicer fluid.

Investments

The Authority invests in certificates of deposits. Investments are valued at their fair value on the statements of net position. Management's intent is to hold all investments to maturity. Realized and unrealized gains and losses are included in interest and investment income on the statements of revenues, expenses, and changes in net position.

Property and Equipment

Property and equipment is stated at cost. The Authority capitalizes all expenditures for land, buildings and equipment over \$1,000. Maintenance and repairs are charged to expenses as incurred. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings	20-50 years
Improvements, other than buildings	5-50 years
Machinery and equipment	5-30 years

Accrued Absences and Sick Leave

Annual leave is earned by the employees based on years of service. Generally, employees earn two weeks for one to five years of service, 15 days for six to ten years, and one day per year thereafter to a maximum of twenty-five days. The vacation year is a calendar year and starts on January 1 of each year based on the vacation earned from the previous year. Upon termination, employees are entitled to receive compensation for their accrued annual leave balance. Employees who have been continuously employed by the Authority for at least 20 years, accumulated 1,000 hours of sick leave prior to their retirement or death will receive payment for one-fourth of their accrued sick leave hours paid at their regular base hourly rate of pay at the date of retirement or death.

Operating Revenue

The Authority recognizes operating revenue when persuasive evidence of an arrangement exists, services have been provided, the fee is fixed or determinable and collectability is reasonably assured. All other revenue is considered non-operating.

Air Flight Property Taxes

The Authority receives federal financial assistance from the U. S. Department of Transportation Security Administration and state financial assistance from the South Dakota Department of Transportation. The funds are provided to finance capital improvements and are not intended to finance current operations. Accordingly, the federal and state grant funds are recorded as capital contributions.

Federal and State Grants

The Sioux Falls Regional Airport Authority receives federal financial assistance from the U. S. Department of Transportation and the U.S. Department of Homeland Security Transportation Security Administration and state financial assistance from the South Dakota Department of Transportation. The funds are provided to finance capital improvements and are not intended to finance current operations. Accordingly, the federal and state grant funds are recorded as capital contributions.

Passenger Facility Charges

The Authority has received approval from the Federal Aviation Administration (FAA) to impose a passenger facility charge (PFC) up to \$4.50 for each enplaned passenger that utilizes the Sioux Falls Regional Airport. The charge is collected by all carriers and remitted to the Authority, less a \$0.11 per passenger handling fee. The proceeds from the PFC's are restricted for use by the Authority for certain FAA approved projects per Code of Federal Regulations (C.F.R.) 158.13. PFC proceeds are recorded as non-operating revenues.

Customer Facility Charges

During 2018, the Authority began assessing a customer facility charge (CFC) to rental car concessionaires. Current charges are \$3.00 per day with a limit of 14 days. The proceeds from the CFC's are restricted for rental car facilities construction projects. CFC proceeds are recorded as non-operating revenues.

Income Taxes

On June 15, 1988, the Authority received a ruling from the Internal Revenue Service determining that the Authority is a political subdivision and is not required to file a federal tax return.

Note 1 - Principal Business Activity and Significant Accounting Policies**Principal Business Activity**

The December 31, 2019 (the Authority) was created June 10, 1986, pursuant to South Dakota State law, to operate the affairs of the airport located in Sioux Falls, South Dakota. The Authority is managed by a Board of Commissioners whose members are appointed by the City Council of the City of Sioux Falls. The Authority is not financially accountable for any other organization, nor is the Authority a component unit of any other primary governmental entity.

Basis of Accounting

The financial statements of the Sioux Falls Regional Airport Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting. The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to a governmental entity proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's financial statements contain a statement of net position, a statement of revenue, expenses, and changes in net position, and a statement of cash flows.

The Authority's policy is to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. Also, transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as components of nonoperating revenues. The Authority reports all other revenues received as operating revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with a term to maturity of three months or less when purchased to be cash equivalents.

Receivables and Credit Policies

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. At December 31, 2019 and 2018, accounts receivable were generally due from lessees in the airline and car rental industries. Unpaid accounts receivable over 30 days do not bear interest. Accounts receivable are stated at the amount billed to the customer. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. The Authority performs periodic credit evaluations of its lessees' financial condition and generally does not require collateral. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. If accounts become uncollectible, they are charged to operations when that determination is made. At December 31, 2019 and 2018, all accounts were considered collectible and therefore an allowance for doubtful accounts is not provided.

Sioux Falls Regional Airport Authority

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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 Authority contributions and net pension asset are recognized on an accrual basis of accounting. Investments are reported at fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Authority after the measurement date but before the end of the Authority's reporting period.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future periods(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, and other unrecognized items not yet credited to pension expense.

Annual Budgets

On a discretionary basis, the Board of Commissioners annually adopt a budget as submitted by management, but greater emphasis is placed on complying with the grant budget, terms and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances. Any material changes to the annual budget are subsequently approved by the Board of Commissioners. Budgetary comparison information is not presented and is not required to be disclosed.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Recent Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, Leases. The statement is meant to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Statement 87 is effective for fiscal years beginning after December 15, 2019, however a delay in the implementation date is currently pending. The Authority is currently evaluating the impact of this statement on the financial statements when implemented.

Note 2 - Bank Deposits and Investments

The Authority's deposits are made and held in qualified public depositories. In South Dakota, qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota. The Authority has entered into a general depository agreement in which deposits in excess of the amounts insured by the FDIC shall be fully and continually secured by the bank by the deposit or setting aside of collateral of the types and in the manner as is prescribed by State law for the security of public funds.

The Authority follows an investment policy to maintain an investment portfolio consisting of government backed securities, securities issued by government-sponsored enterprises or federally related institutions that are guaranteed directly or indirectly by the U.S. government (U.S. Agencies), and certificates of deposit as its fiscal agent.

SDCL 4-5-6 permits public funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements

described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the Authority or may be deposited in a safekeeping account with any bank or trust company designated by the Authority as its fiscal agent.

Credit Risk - The credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investments in certificates of deposit were fully insured by the Federal Deposit Insurance Company (FDIC). Insured deposits are backed by the full faith and credit of the U.S. Government.

Custodial Credit Risk - The custodial credit risk is the risk that, in the event of a depository failure, the Authority will not be able to recover deposits. Authority deposits in excess of depository insurance must be 100 percent collateralized. As of December 31, 2019, \$19,478,017 of the Authority's bank balance of \$23,978,017 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank.	\$19,081,711
Uninsured and collateral held by the pledging bank's trust department not in the Authority's name.	396,306
	<u>\$19,478,017</u>

Concentration of Credit Risk - The risk of loss attributed to the magnitude of an investment in a single issuer. The Authority does not have a policy regarding concentration of credit risk.

Interest Rate Risk - The interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, then the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the Authority's investment policy, the Authority minimizes the market value risk of investments in the portfolio by structuring its investment portfolio so that securities mature to meet cash requirements for operations, thereby avoiding the need to sell securities in the open market prior to maturity.

As of December 31, 2019, \$1,712,213 of CFC contributions are restricted for rental car construction projects at the Authority under the CFC program requirements.

Note 3 - Fair Value Measurements

The Authority's investments are measured at fair value and are classified according to the following hierarchy:

- Level 1 - Investments reflect prices quoted in active markets.
- Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active.
- Level 3 - Investments reflect prices based upon unobservable sources.

First Premier Bank in Sioux Falls uses a pricing service to value investments. This service uses market approach pricing which utilizes models and pricing systems as well as mathematical tools and pricing analyst judgment. All investments are priced by this service, which is not quoted prices in an active market, but rather significant other observable inputs; therefore, the investments in certificates of deposit are categorized as level 2. are categorized as level 2.

The fair value of investments are as follows:

	Fair Value December 31, 2019	Fair Value December 31, 2018
Certificates of deposit U.S. Agency securities	<u>\$4,264,747</u>	<u>\$4,241,935</u>



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