Financial Statements
December 31, 2019 and 2018

Sioux Falls Regional Airport Authority

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Independent Auditor's Report

The Board of Commissioners
Sioux Falls Regional Airport Authority
Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Sioux Falls Regional Airport Authority, which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Sioux Falls Regional Airport Authority's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Sioux Falls Regional Airport Authority as of December 31, 2019 and 2018, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 11 to the financial statements, in January 2020, the World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern." Given the uncertainty of the situation, the duration of any business disruption and related financial impact to the Authority cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 8 and the Schedule of Authority's Contributions and Schedule of Authority's Proportionate Share of Net Pension Liability (Asset) on pages 29 to 31 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements of the Sioux Falls Regional Airport Authority as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200*, Uniform Administrative Requirements, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 a report dated April 23, 2020, our consideration of Sioux Falls Regional Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sioux Falls Regional Airport Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sioux Falls Regional Airport Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Sioux Falls, South Dakota
April 23, 2020

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, 2018 and 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

	2019	2018	2017
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

The Authority's total net position increased $8,183,679 or 5.7% over the course of this year's operations.

FINANCIAL HIGHLIGHTS - 2019

The Sioux Falls Regional Airport continues to make improvements to both the airfield and terminal facility. A project to expand the Baggage Claim area was completed in October that doubled the square footage in the baggage claim and replaced three luggage claim devices with new, large, slope plate carousels. The project cost totaled $6.2 million and is a very positive enhancement to the customer experience. Work also began on a project to replace the rental car operator's car wash and detail bay facilities. A new Quick Turn-Around (QTA) building started construction in August with completion of the building scheduled for April of 2020. The combined $5 million project will also demolish the old buildings and provide a new secured storage lot for the car rental companies.

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 coronavirus (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.

FINANCIAL HIGHLIGHTS – 2018

The Sioux Falls Regional Airport recorded another strong year of passenger traffic with 1,066,314 travelers utilizing the airport, down 1.5% compared with the record set in 2017. Passenger enplanements totaled 533,614, down 1.5% from the previous year. Despite the decline in deplanements, concession revenue increased for food/beverage, car rental, gift/retail, and adjacent hotel sales. Parking concessions did decline 3.6% as a result of the introduction of Lyft as an option for ground transportation to and from the airport.

The Sioux Falls Regional Airport completed numerous air field projects in 2018 and started two significant terminal projects. A project to replace the airfield perimeter security fence along the west and north half of the airport was completed at the cost of $500,000 along with the commitment to purchase a new snow plow with runway deicing capabilities for $530,000. The second phase of reconstruction for our primary runway 3/21 was completed in October and replaced over 4,500 feet of the runway along with an arresting barrier utilized by South Dakota Air National Guard (SDANG). In 2018 the Airport Authority negotiated new rental car concession agreements that provide for the collection of the Customer Facility Charge (CFC) of $3.00 per daily car rental to fund a new rental car quick turn cleaning facility and car wash at the cost of approximately $5.5 million. Work also commenced on the expansion of the terminal baggage claim area in the Summer of 2018, which will nearly double the amount of space on the public side for baggage pick-up and will provide for 3 new slope-plate carrousel delivery devices at an approximate cost of $6 million.

The Authority’s investments in capital assets amounts to $119,527,845 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in progress. The total increase in capital assets for the current fiscal year was approximately 9.2%. Additional information on the Authority’s capital assets can be found in Note 6, Capital Assets.

In 2018, the largest operating revenue source was parking lot revenue at $4,675,271 down 3.6% from 2017. The Authority's second largest operating revenue source was airline fees and they are negotiated based on actual costs. The Authority's third largest revenue stream was rental car commissions, up 1.5% versus the prior year. In 2018, on-site car rental agency revenue reported to the Authority totaled $14,354,139 resulting in commissions paid to the Authority of $1,498,104.

Parking Revenue in 2018 was impacted by the introduction of Lyft into the marketplace. The popularity of the ground transportation company reduced parking revenue by 3.6% despite a passenger decline of only 1.5%. The Airport Authority did implement a pick-up fee of $2.00 per ride in order to allow Lyft to conduct business at the airport. The airport received revenue in excess of $27,000 in 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	62,263,861	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

	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 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		

	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		
Taxes - air flight	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
Proceeds from sale of property and equipment	10,650	-
Purchases of property and equipment	(12,715,011)	(14,647,826)
Net Cash (used for) from 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
Supplemental Disclosure of Cash Flow Information		
Cash and cash equivalents consist of the following:		
Cash and cash equivalents	$ 17,784,723	$ 18,056,301
Restricted cash	1,712,213	754,050
	$ 19,496,936	$ 18,810,351

	2019	2018
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating Loss	$ (455,314)	$ (557,656)
Adjustments to Reconcile Operating 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	$ 5,172,175	$ 4,332,895
Supplemental Disclosure of Noncash Financing Activities		
Capital asset additions included in accounts payable	$ 1,731,765	$ 747,180

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

The Sioux Falls Regional Airport Authority (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.

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

Air flight property taxes are assessed by the State of South Dakota and certified to the respective County Auditor no later than the fourth Monday in August of each year. The air flight taxes are due and payable on January 1 of the following year, at which time the tax lien on the property attaches as an enforceable lien. The County bills and collects the taxes and remits them to the Authority.

Federal and State Grants

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.

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.

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.

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
	$ 19,478,017

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.

The fair value of investments are as follows:

	December 31, 2019	December 31, 2018
Certificates of deposit	$ 4,264,747	$ 4,241,935

Note 4 - Retirement Plan

Plan Information

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

Benefits Provided

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
    - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
    - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary, Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The Authority’s share of contributions to the SDRS for the years ended December 31, 2019, 2018, and 2017, equal to required contributions each year, were $97,805, $89,374, and $82,022, respectively.

Pension Assets (Liabilities), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources to Pensions

At June 30, 2019 and 2018, SDRS is 100.09% and 100.02% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of SDRS for the Authority as of December 31, 2019 and 2018 are as follows:

	2019	2018
Proportionate share of net position restricted for pension benefits	$ 9,211,836	$ 8,465,441
Less proportionate share of total pension liability	9,204,010	8,463,828
Proportionate share of net pension asset	$ 7,826	$ 1,613

At December 31, 2019 and 2018, the Authority reported an asset of $7,826 and $1,613, respectively, for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019 and 2018, and the total pension asset used to calculate the pension asset was based on a projection of the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the Authority's proportion was 0.0738554%, which is an increase of 0.0098750% from its proportion measured as of June 30, 2018. At June 30, 2018, the Authority's proportion was 0.0691863%, which is an increase of 0.0052059% from its proportion measured as of June 30, 2017.

For the years ended December 31, 2019 and 2018, the Authority recognized pension expense of $203,028 and $104,712, respectively.

At December 31, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 30,701	$ 3,543
Changes in assumption	270,312	110,815
Net difference between projected and actual earnings on pension plan investments	-	45,088
Changes in proportion and difference between Authority contributions and proportionate share of contributions	-	43,737
Authority contributions subsequent to measurement date	48,032	-
	$ 349,045	$ 203,183

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 60,988	$ -
Changes in assumption	409,661	-
Net difference between projected and actual earnings on pension plan investments	-	121,950
Changes in proportion and difference between Authority contributions and proportionate share of contributions	-	39,897
Authority contributions subsequent to measurement date	46,302	-
	$ 516,951	$ 161,847

Deferred outflows of resources related to pension resulting from the Authority's contributions subsequent to the June 30, 2019 measurement date of $48,032 will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense (reduction of pension expense) as follows:

Years Ending December 31,	
2019	$ 152,892
2020	(41,800)
2021	(25,932)
2022	12,670
	$ 97,830

Actuarial Assumptions

The total pension asset in the SDRS June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Investment rate of return	6.50% net of pension plan investment expense
Future COLAs	1.88%

Morality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	58.0%	4.7%
Fixed income	30.0%	1.7%
Real estate	10.0%	4.3%
Cash	2.0%	0.9%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of net pension asset at June 30, 2019 calculated using the discount rate of 6.50%, as well as what the Authority's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Authority's proportionate share of the net pension asset (liability)	$ (1,299,071)	$ 7,826	$ 1,072,712

Pension Plan Fiduciary Net Position

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

Note 5 - Compensated Absences

Changes in compensated absences for the year ended December 31, 2019 and 2018, were as follows:

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Current Portion
Compensated absences	$ 92,099	$ 100,005	$ (74,184)	$ 117,920	$ 100,005

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Current Portion
Compensated absences	$ 90,656	$ 74,957	$ (73,514)	$ 92,099	$ 74,957

Note 6 - Capital Assets

	2019			
	Balance 1/1/19	Additions	Retirements or Disposals	Balance 12/31/19
Non-depreciable assets				
Land	$ 1,152,384	$ -	$ -	$ 1,152,384
Construction in progress	3,172,674	13,373,848	(7,269,059)	9,277,463
Total non-depreciable assets	4,325,058	13,373,848	(7,269,059)	10,429,847
Depreciable assets				
Buildings	56,094,827	6,169,034	-	62,263,861
Improvements, other than buildings	119,570,399	617,118	-	120,187,517
Machinery and equipment	8,855,457	808,656	(186,899)	9,477,214
Total depreciable assets	184,520,683	7,594,808	(186,899)	191,928,592
Total capital assets	$ 188,845,741	$ 20,968,656	$ (7,455,958)	$ 202,358,439
Accumulated depreciation includes				
Buildings	$ 16,277,393	$ 1,495,209	$ -	$ 17,772,602
Improvements, other than buildings	47,888,590	3,507,399	-	51,395,989
Machinery and equipment	5,151,913	470,179	(184,343)	5,437,749
Total net capital assets	$ 69,317,896	$ 5,472,787	$ (184,343)	$ 74,606,340

	2018			
	Balance 1/1/18	Additions	Retirements or Disposals	Balance 12/31/18
Non-depreciable assets				
Land	$ 1,152,384	$ -	$ -	$ 1,152,384
Construction in progress	320,136	14,386,744	(11,534,206)	3,172,674
Total non-depreciable assets	1,472,520	14,386,744	(11,534,206)	4,325,058
Depreciable assets				
Buildings	56,042,802	52,025	-	56,094,827
Improvements, other than buildings	107,652,097	12,124,538	(206,236)	119,570,399
Machinery and equipment	8,765,936	154,806	(65,285)	8,855,457
Total depreciable assets	172,460,835	12,331,369	(271,521)	184,520,683
Total capital assets	$ 173,933,355	$ 26,718,113	$ (11,805,727)	$ 188,845,741
Accumulated depreciation includes				
Buildings	$ 14,791,681	$ 1,485,712	$ -	$ 16,277,393
Improvements, other than buildings	44,870,302	3,224,523	(206,235)	47,888,590
Machinery and equipment	4,786,157	431,041	(65,285)	5,151,913
Total net capital assets	$ 64,448,140	$ 5,141,276	$ (271,520)	$ 69,317,896

Note 7 - Leases

The Authority owns general aviation and air cargo buildings, which are leased under long-term lease agreements. The cost and accumulated depreciation of these buildings, which are included in property and equipment on the accompanying statements of net position were $7,854,241 and $2,293,249 respectively, at December 31, 2019, and were $7,854,241 and $2,136,165 respectively, at December 31, 2018. The Authority also leases airport and terminal facilities under various lease agreements.

Minimum future rentals on noncancelable operating leases due to the Authority are as follows:

Years Ending December 31,	
2020	$ 2,200,941
2021	2,107,075
2022	1,920,884
2023	1,851,506
2024	850,420
Thereafter	5,290,810
	$ 14,221,636

Minimum future rentals do not include contingent rentals which may be received during the lease period as stipulated in the various lease contracts. Rental income also includes parking lot revenue of $5,120,458, and $4,675,271 in 2019 and 2018, respectively, net of management fees paid of $530,208 and $643,671, respectively. The parking lot revenue provides for a tiered percentage of revenue received from the concessionaire with a minimum annual guarantee of $3,800,000 per year through 2022. Rental income also includes building, hangar and miscellaneous other rentals.

Note 8 - Commitments and Contingencies

Construction in progress and commitments consisted of construction projects as of December 31, 2019 as follows:

	Total Project Costs	Cost Covered by Grants	Costs Incurred to Date	Cost to Complete
Deicing/RON Apron	$ 10,970,535	$ 10,422,008	$ 4,610,568	$ 6,359,967
Rental Car Quick Turn Facility	5,167,820		3,078,133	2,089,687
Economy Lot Expansion	25,282		19,644	5,638
2019 Asphalt Repairs	1,017,374		667,294	350,080
Runway Broom	582,647		582,647	-
Runway 3-21 Reconstruction Phase 3	377,039	358,186	211,442	165,597
Security/New Hire Training Program	108,628		49,728	58,900
2020 Asphalt Repairs	70,877		8,168	62,709
Security Enhancement - Cameras	31,713		20,224	11,489
Parking Garage	29,615		29,615	-
	$ 18,381,530	$ 10,780,194	$ 9,277,463	$ 9,104,067

In addition, the rental car quick turn facility costs are covered by customer facility charges. The Authority has future commitments of approximately $78,000 related to the baggage claim expansion project for which the completed phases of the project have been capitalized and placed in service as of December 31, 2019. In 2020, the Authority signed additional contract commitments totaling $1,166,943, of which $64,815 relates to the rental car quick turn around facility and $1,102,128 relates to the economy lot expansion.

The Authority has approved forward commitments of support to various community agencies totaling $1,125,000 through 2021, of which $450,000 remained outstanding as of December 31, 2019.

Note 9 - 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. Insurance is purchased by the Authority to provide coverage of losses that may occur. Settlement amounts paid did not exceed insurance coverage for the years ended December 31, 2019, 2018, and 2017.

Note 10 - Related Party Transactions

At December 31, 2019 and 2018, the Authority had $0 and $169,110, respectively, receivable from the City of Sioux Falls related to improvements to the adjacent property runway safety area correction.

Note 11 - Subsequent Events

Subsequent to year-end 2019, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There have been mandates from international, federal, state and local authorities requiring forced closures of various schools, businesses, and other facilities and organizations. These forced closures have negatively impacted the Authority's business. While the closures and limitations on movement, domestically and internationally, are expected to be temporary, the duration of the disruption, and related financial impact, cannot be estimated at this time. Should the closures continue for an extended period of time or should the effects of the coronavirus continue to spread, the impact could have a material adverse effect on the Authority's financial position, results of operations and cash flows.

Required Supplementary Information
December 31, 2019

Sioux Falls Regional Airport Authority

South Dakota Retirement System
Last 10 Years **

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	$ 97,805	$ 89,374	$ 82,022	$ 74,827	$ 62,852	$ 60,965	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	97,805	89,374	82,022	74,827	62,852	60,965	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 1,630,085	$ 1,467,717	$ 1,356,342	$ 1,247,113	$ 1,047,533	$ 1,016,091	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	6.00%	6.09%	6.05%	6.00%	6.00%	6.00%				

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Authority will present information for those years for which information is available. Data reported is measured as of the calendar year end.

South Dakota Retirement System
Last 10 Years **

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Authority's proportion of the net pension liability (asset)	0.0738554%	0.0691863%	0.0639804%	0.0594110%	0.0570954%	0.0543941%	%	%	%	%
Authority's proportionate share of net pension liability (asset)	$ (7,826)	$ (1,613)	$ (5,806)	$ 200,685	$ (242,158)	$ (391,887)	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 1,579,399	$ 1,409,383	$ 1,295,888	$ 1,129,700	$ 1,042,400	$ 951,200	$ -	$ -	$ -	$ -
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.50%	0.11%	0.45%	17.76%	23.23%	41.20%				
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	100%	100%	97%	104%	107%				

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Authority will present information for those years for which information is available. Data reported is measured as of the measurement date determined as of June 30.

Notes to Required Supplementary Information

There were no significant changes in benefit provisions.

Change of Assumptions

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019. The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

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 Board of Commissioners
Sioux Falls Regional Airport Authority
Sioux Falls, South Dakota

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 Sioux Falls Regional Airport Authority (the Authority) which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2020.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in interest control, described in the accompanying schedule of findings and questioned costs, as Finding 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Sioux Falls, South Dakota
April 23, 2020

Independent Auditor's Report on Compliance for Its Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance

The Board of Commissioners
Sioux Falls Regional Airport Authority
Sioux Falls, South Dakota

Report on Compliance for its Major Federal Program

We have audited Sioux Falls Regional Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2019. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on its Major Federal Program
In our opinion, Sioux Falls Regional Airport Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2019-0012 and 2019-003 that we consider to be significant deficiencies.

The Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Sioux Falls, South Dakota
April 23, 2020

Supplemental Information
December 31, 2019

Sioux Falls Regional Airport Authority

Grantor/Program Title	Federal CFDA Number	Project Number	Program or Award Amount	Expenditures
Department of Transportation				
Airport Improvement Program	20.106	AIP3-46-0050-51	$ 8,227,472	$ 36,414
Airport Improvement Program	20.106	AIP3-46-0050-52	3,240,204	1,169,806
Airport Improvement Program	20.106	AIP3-46-0050-53	7,916,183	2,723,618
Total federal financial assistance			$ 19,383,859	$ 3,929,838

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (schedule) includes the federal grant activity of the Sioux Falls Regional Airport Authority (Authority) under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operation of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note B – Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority received federal awards directly from a federal agency. No federal financial assistance has been provided to a subrecipient.

Note C – Indirect Cost Rate

The Authority does not draw for indirect administrative expense and has not elected to use the 10% de minimis cost rate.

Note D – Airport Improvement Program

Expenditures in the amount of $572,005 were expended in the prior fiscal year. These expenditures were approved for payment by the federal agency in 2019 through grant awards or amendments and are included on the schedule of expenditures of federal awards for year ending December 31, 2019.

Description of each airport improvement program identified in the schedule is as follows:

Project Number AIP-46-0050-51: Partial reconstruction of Runway 3-21 and selective slab repair south of the intersection of runway 3-21 and runway 15-33.

Project Number AIP-46-0050-52: Extend West GA taxilane, expand West GA apron, East GA taxilane reconstruction, westside security fence replacement, relocated SD Air National Guard blast fence/apron from runway visibility zone, design terminal apron remain overnight and deicing expansion, acquire snow plow with deicer.

Project Number AIP-46-0050-53: Construct terminal deicing and remain overnight apron. Design and construct south terminal apron partial pavement replacement; east cargo apron expansion.

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiency identified not considered to be material weakness	None reported
Noncompliance material to financial statements noted	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified	No
Significant deficiency identified not considered to be material weakness	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516	Yes

Identification of major programs:

Name of Federal Program or Cluster	CFDA number
Airport Improvement Program	20.106

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2019-001 **Preparation of Financial Statements and Material Audit Adjustments**
Material Weakness

Criteria: Proper controls over financial reporting include an adequate system for recording and processing entries material to the financial statements, as well as the ability to prepare financial statements and the accompanying notes to the financial statements.

Condition: The Authority does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we proposed material audit adjustments that would not have been identified as a result of the Authority's existing controls, and therefore could have resulted in a material misstatement of the financial statements. We were also requested to draft the financial statements and accompanying notes to the financial statements.

Cause: The Authority has limited staff to prepare full disclosure financial statements.

Effect: Material audit adjustments were needed at year-end. There is a reasonable possibility that the Authority would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization with limited staffing, it is important that the Authority is aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial accounting and reporting of the Authority and changes in the accounting and reporting requirements.

Views of Responsible Officials: Management agrees with the finding and will review the year-end adjustments.

Section III – Federal Award Findings and Questioned Costs

Finding 2019-002 **Department of Transportation**
CFDA #20.106
Airport Improvement Program

Reporting
Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal controls over the federal awards that provide assurance that the entity is managing the federal awards in compliance with federal statutes, regulations, and the conditions of the federal award. 2 CFR 200.327 and 2 CFR 200.328 require the auditee to collect financial information and monitor its activities under federal awards to assure compliance with applicable federal requirements, to assure performance expectations are being achieved, and to report these items in accordance with program requirements.

Condition: Internal controls failed to detect a clerical error on FAA 5100-127, *Operating and Financial Summary* report relating to net assets.

Cause: Net assets were keyed incorrectly into report and error was not caught during review.

Effect: Net assets were misreported on the FAA 5100-127 report by $30,000. There is a reasonable possibility that the Authority would not identify errors in reporting that could result in material reporting errors.

Questioned Costs: None reported.

Context/Sampling: Nonstatistical sampling was not used.

Repeat Finding from Prior Year: No

Recommendation: Management should perform a detailed review of all reports prepared by third party accountant prior to submission to evaluate for accuracy.

Views of Responsible Officials: Management agrees with the finding.

Finding 2019-003 **Department of Transportation**
CFDA #20.106, AIP3-46-0050-52
Airport Improvement Program

Special Tests & Provisions: Davis Bacon
Significant Deficiency in Internal Control over Compliance

Criteria: The Wage Rate Requirements under the Davis Bacon Act relating to prevailing wage rates are applicable to construction work for airport development projects. (49 USC 47112)

Condition: The Authority uses a 3rd party contractor to monitor compliance with Davis Bacon prevailing wage requirements. The 3rd party contractor omitted the established review process of AIP3-46-0050-52 and did not obtain all payroll periods for weeks where contractors were performing at the Airport for that project.

Cause: The engineering firm that is obtaining the required Davis Bacon certifications failed to supply supporting documentation to the 3rd party contractor as an oversight.

Effect: Controls over Davis Bacon compliance not operating effectively could result in the possibility that the Airport would not be able to prevent, detect, and correct potential instances of noncompliance in a timely manner.

Questioned Costs: None reported.

Context/Sampling: We tested all contractor certifications for six weeks out of 31 weeks in which contractors were performing work.

Repeat Finding from Prior Year: No

Recommendation: Management should perform a secondary review of weeks monitored by Lamfers & Maas, LLP for Davis Bacon requirements.

Views of Responsible Officials: Management agrees with the finding.

SIOUX FALLS
REGIONAL AIRPORT

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www.sfairport.com | An equal opportunity employer.

Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan:

Year Ended December 31, 2019

Prepared by Management of
Sioux Falls Regional Airport Authority

Financial Statement Findings

Finding 2018-001

Initial Fiscal Year Finding Occurred: 2009

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Status: Ongoing. Due to cost considerations, we will continue to have Eide Baily LLP prepare our draft financial statement and accompanying notes to the financial statements.

Sioux Falls Regional Airport Authority
Corrective Action Plan
April 20, 2020

Cognizant or Oversight Agency for Audit: U.S. Department of Transportation

Sioux Falls Regional Airport Authority respectfully submits the following corrective action plan for the year ended December 31, 2019.

Name and address of independent public accounting firm: Eide Bailly, LLP
200 E. 10th St., Ste. 500
Sioux Falls, SD 57104

Audit Period: January 1, 2019 – December 31, 2019

The findings from the 2019 schedule of findings and questioned costs are discussed below:

Financial Statement Findings

Finding 2019-001

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Responsible Individuals: Dan Letellier, Executive Director

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

Federal Award Findings and Questioned Costs

Finding 2019-002
Department of Transportation
Airport Improvement Program, CFDA #20.106

Finding Summary: Internal controls failed to detect a clerical error on FAA 5100-127, *Operating and Financial Summary* report related to net assets. Net assets were keyed incorrectly into report which misreported net assets by $30,000. This is the first error of this type reported.

Responsible Individuals: Dan Letellier, Executive Director

Corrective Action Plan: Management will perform a detailed review of all reports prepared by third party accountant prior to submission to evaluate for accuracy.

Anticipated Completion Date: Ongoing

Federal Award Findings and Questioned Costs (Cont.)

Finding 2019-003
Department of Transportation
Airport Improvement Program, CFDA #20.106
AIP3-46-0050-52

Finding Summary: The Airport Authority utilizes a 3rd party accounting firm to monitor compliance with Davis Bacon prevailing wage requirements. The 3rd party firm omitted the established review process of AIP 3-46-0050-52 and did not obtain all payroll records for weeks where contractors were performing work at the airport for funded project. The payroll records were not provided by the engineering firm also hired to obtain and track payroll records.

Responsible Individuals: Dan Letellier, Executive Director

Corrective Action Plan: Management will require a schedule from 3rd party accounting firm as well as the engineering firm monitoring the project to account for all 52 weeks of the year whether a payroll record was received or no work was conducted. All weeks must be accounted for by all construction firms involved with the project.

Anticipated Completion Date: Ongoing