



Financial Statements
December 31, 2020 and 2019

Sioux Falls Regional Airport Authority

Sioux Falls Regional Airport Authority

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December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 8 to the financial statements, the Authority has been impacted by the effects of the world-wide COVID-19 pandemic. 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 7 and the Schedule of Authority's Contributions and Schedule of Authority's Proportionate Share of Net Pension Liability (Asset) on pages 27 to 29 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. 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 May 21, 2021, 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.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
May 21, 2021

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 began 2020 with record passenger traffic in January and February, only to be hit with one of the most significant events in the past twenty years to impact aviation. Beginning in mid-March the pandemic dramatically impacted travel all across the world including Sioux Falls. Passenger traffic fell 95% in April and recovered in the summer and the remainder of the year at 50% of normal levels. Total passenger traffic was 588,881, down 49.5% compared to the year prior. Enplanements also fell 49.5% for a total of 293,892. The decline in traffic impacted all passenger driven concession revenue accounts from rental car use, parking, food/beverage, hotel and retail which were down 50-60% compared to 2019.

The following tables show the significant changes that have taken place over the past three fiscal years ended December 31, 2020, 2019 and 2018.

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

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|-----------------------|
| Total Assets | | | |
| Capital | \$ 135,343,922 | \$ 127,752,099 | \$ 119,527,845 |
| Other | 26,659,222 | 26,390,562 | 25,266,344 |
| | <u>162,003,144</u> | <u>154,142,661</u> | <u>144,794,189</u> |
| Deferred Outflow of Resources | | | |
| Related to pension | 491,306 | 349,045 | 516,951 |
| Total assets and deferred outflows | <u>\$ 162,494,450</u> | <u>\$ 154,491,706</u> | <u>\$ 145,311,140</u> |
| Total Liabilities | | | |
| Long-term | \$ 19,004 | \$ 17,915 | \$ 17,142 |
| Other | 590,804 | 2,137,150 | 1,182,371 |
| | <u>609,808</u> | <u>2,155,065</u> | <u>1,199,513</u> |
| Deferred Inflow of Resources | | | |
| Related to pension | 476,070 | 203,183 | 161,847 |
| Total liabilities and deferred inflows | <u>\$ 1,085,878</u> | <u>\$ 2,358,248</u> | <u>\$ 1,361,360</u> |
| Total Net Position | | | |
| Invested in capital assets | \$ 135,343,922 | \$ 127,752,099 | \$ 119,527,845 |
| Restricted for capital projects | 496,924 | 1,712,213 | 754,050 |
| Restricted for pension benefits | 18,632 | 153,688 | 356,717 |
| Unrestricted | 25,549,094 | 22,515,458 | 23,311,168 |
| | <u>\$ 161,408,572</u> | <u>\$ 152,133,458</u> | <u>\$ 143,949,780</u> |

Changes in Statement of Revenues, Expenses, and Net Position

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--------------------------------------|-----------------------|---------------------|---------------------|
| Operating Revenues | | | |
| Rentals and commissions, net | \$ 5,790,691 | \$ 9,140,887 | \$ 8,105,429 |
| Landing fees | 884,217 | 1,055,511 | 961,431 |
| State security reimbursements | 118,400 | 128,205 | 127,840 |
| Fines, forfeitures and other revenue | 36,008 | 76,294 | 68,063 |
| | <u>6,829,316</u> | <u>10,400,897</u> | <u>9,262,763</u> |
| Operating Expenses | | | |
| Depreciation | 5,823,363 | 5,472,787 | 5,141,276 |
| Personnel | 2,582,910 | 2,580,644 | 2,272,155 |
| Professional services | 790,674 | 840,379 | 794,186 |
| Utilities and bulk energy | 654,703 | 628,726 | 624,012 |
| Repairs and maintenance | 370,000 | 456,347 | 339,612 |
| Supplies and materials | 277,756 | 148,896 | 92,244 |
| Insurance | 187,599 | 174,663 | 152,365 |
| Other expenses | 336,930 | 553,769 | 404,569 |
| | <u>11,023,935</u> | <u>10,856,211</u> | <u>9,820,419</u> |
| Operating Loss | <u>\$ (4,194,619)</u> | <u>\$ (455,314)</u> | <u>\$ (557,656)</u> |

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|----------------------|
| Nonoperating Revenues (Expenses) | | | |
| Passenger facility charges | \$ 1,218,919 | \$ 2,453,168 | \$ 2,295,124 |
| Customer facility charges | 527,211 | 957,264 | 822,210 |
| Federal and state grants | 4,953,305 | - | - |
| Taxes, air flight, net | 333,195 | 394,832 | 362,885 |
| Interest and investment income | 173,407 | 566,128 | 365,668 |
| Loss on disposal or retirement of property and equipment | 2,500 | 8,095 | - |
| Miscellaneous | 8,180 | 3,080 | 47 |
| | <u>7,216,717</u> | <u>4,382,567</u> | <u>3,845,934</u> |
| Change in Net Position Before Capital Contributions | 3,022,098 | 3,927,253 | 3,288,278 |
| Capital Contributions | <u>6,253,016</u> | <u>4,256,425</u> | <u>12,663,574</u> |
| Change in Net Position | <u>\$ 9,275,114</u> | <u>\$ 8,183,678</u> | <u>\$ 15,951,852</u> |

The Authority's total net position increased \$9,275,114 or 6% over the course of this year's operations.

FINANCIAL HIGHLIGHTS - 2020

The Sioux Falls Regional Airport was significantly impacted with sharp drops in revenue as a result of traffic declines related to the pandemic. Projects planned for 2020 and bid early in the year or in 2019 moved forward, however. Work continued on a \$11 million deicing apron and glycol collection system which was completed in August. The new apron provides for a dedicated area for aircraft deicing of commercial aircraft reducing congestion on the terminal apron. It also allows for improved handling of glycol collected prior to being sent to the water treatment plant. This project was funded up to 90% with an FAA Airport Improvement Program grant and 5% from the State DOT. A project to expand the Economy lot began in early summer and completed in September. The \$1.2 million expansion allows for increased parking capacity to handle the high parking demand in February and March. A project to develop future private hangars on the west side of the airfield was also completed during the summer which provided a new taxiway connection for future hangars. Billion Automotive was the first business to construct a hangar in this area. The \$1.8 million project was funded with airport reserves.

Plans to reconstruct the final phase of Runway 3-21 moved forward with a bid opening in August of 2020 and work slated in 2021. The \$11.2 million project is funded with an FAA-AIP grant up to 90% with the State DOT contributing 5%. This is the last phase of reconstruction of the primary airport for FSD which began in 2012. Total cost of reconstruction has totaled over \$45 million in the past ten years.

While FSD saw operating revenue drop over 34% in 2020, Congress passed legislation in April of 2020 for the CARES Act providing a financial life-line to airports and airlines across the country. FSD was awarded a grant in the amount of \$22,454,505 to offset operation and maintenance expenses to minimize the loss of income expected over the next 2-3 years. This critical funding has allowed the airport to maintain employee staffing and operate the airport without resorting to significant cuts in spending. In 2020, the largest operating revenue source was parking lot revenue at \$2,501,471 which was down 51.1% from 2019. 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, down 44% versus the prior year. In 2020, on site-car rental agency revenue reported to the Authority totaled \$9,742,661 resulting in commissions paid to the Authority of \$1,028,085.

The Sioux Falls Regional Airport Authority continues on firm footing as a result of a strong net position and a healthy economy which has weathered the pandemic fairly well. Passenger traffic has rebounded over the past few months in 2021 and FSD is expecting to reach passenger levels of 70-75% of 2019 levels and a more normal year in 2022. Federal grants provided to airports across the country have mitigated the impacts due to Covid-19 and allowed us to move forward with many projects in the current and near term. Formal design has started for a 4-level parking structure planned for construction in 2023. The \$35 million project will be one of the largest for the airport with funding coming from airport reserves.

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 airfield 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 \$5,120,458 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.

Sioux Falls Regional Airport Authority
 Statements of Net Position
 December 31, 2020 and 2019

| | 2020 | 2019 |
|--|----------------|----------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 19,007,648 | \$ 17,784,723 |
| Restricted cash | 496,924 | 1,712,213 |
| Accounts receivable | 309,965 | 690,852 |
| Grants receivable | 1,820,451 | 1,257,540 |
| Interest receivable | 11,083 | 17,453 |
| Passenger facility charges receivable | 185,075 | 403,420 |
| Customer facility charges receivable | 33,962 | 97,608 |
| Inventories | 102,608 | 101,428 |
| Prepaid expenses | 183,906 | 52,752 |
| Total current assets | 22,151,622 | 22,117,989 |
| Investments | | |
| Certificates of deposit | 4,504,204 | 4,264,747 |
| Other Assets | | |
| Pension asset | 3,396 | 7,826 |
| Capital Assets | | |
| Land | 1,152,384 | 1,152,384 |
| Buildings | 64,367,949 | 62,263,861 |
| Improvements other than buildings | 133,759,511 | 120,187,517 |
| Machinery and equipment | 9,952,532 | 9,477,214 |
| Construction in progress | 936,178 | 9,277,463 |
| | 210,168,554 | 202,358,439 |
| Less accumulated depreciation | (74,824,632) | (74,606,340) |
| Total capital assets | 135,343,922 | 127,752,099 |
| Total assets | 162,003,144 | 154,142,661 |
| Deferred Outflow of Resources | | |
| Related to pension | 491,306 | 349,045 |
| Total assets and deferred outflow of resources | \$ 162,494,450 | \$ 154,491,706 |

Sioux Falls Regional Airport Authority
 Statements of Net Position
 December 31, 2020 and 2019

| | 2020 | 2019 |
|--|----------------|----------------|
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | \$ 462,728 | \$ 1,944,123 |
| Accrued salaries | 24,323 | 93,022 |
| Compensated absences | 103,753 | 100,005 |
| Total current liabilities | 590,804 | 2,137,150 |
| Long-Term Liabilities | | |
| Compensated absences - long-term | 19,004 | 17,915 |
| Total liabilities | 609,808 | 2,155,065 |
| Deferred Inflow of Resources | | |
| Related to pension | 476,070 | 203,183 |
| Total liabilities and deferred inflow of resources | 1,085,878 | 2,358,248 |
| Net Position | | |
| Invested in capital assets | 135,343,922 | 127,752,099 |
| Restricted for capital projects | 496,924 | 1,712,213 |
| Restricted for pension benefits | 18,632 | 153,688 |
| Unrestricted | 25,549,094 | 22,515,458 |
| Total net position | 161,408,572 | 152,133,458 |
| Total liabilities, deferred inflow of resources, and net position | \$ 162,494,450 | \$ 154,491,706 |

Sioux Falls Regional Airport Authority
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|--|-----------------------|-----------------------|--------------------------|------------------------------|
| Operating Revenues | | | | |
| Rentals and commissions, net | \$ 5,790,691 | \$ 9,140,887 | \$ (3,350,196) | -36.7% |
| Landing fees | 884,217 | 1,055,511 | (171,294) | -16.2% |
| State security reimbursements | 118,400 | 128,205 | (9,805) | -7.6% |
| Fines, forfeitures and other revenue | 36,008 | 76,294 | (40,286) | -52.8% |
| Total operating revenues | <u>6,829,316</u> | <u>10,400,897</u> | <u>(3,571,581)</u> | -34.3% |
| Operating Expenses | | | | |
| Depreciation | 5,823,363 | 5,472,787 | 350,576 | 6.4% |
| Personnel | 2,582,910 | 2,580,644 | 2,266 | 0.1% |
| Professional services | 790,674 | 840,379 | (49,705) | -5.9% |
| Utilities and bulk energy | 654,703 | 628,726 | 25,977 | 4.1% |
| Repairs and maintenance | 370,000 | 456,347 | (86,347) | -18.9% |
| Supplies and materials | 277,756 | 148,896 | 128,860 | 86.5% |
| Insurance | 187,599 | 174,663 | 12,936 | 7.4% |
| Other expenses | 336,930 | 553,769 | (216,839) | -39.2% |
| Total operating expenses | <u>11,023,935</u> | <u>10,856,211</u> | <u>167,724</u> | 1.5% |
| Operating Loss | <u>(4,194,619)</u> | <u>(455,314)</u> | <u>(3,739,305)</u> | 821.3% |
| Nonoperating Revenues (Expenses) | | | | |
| Passenger facility charges | 1,218,919 | 2,453,168 | (1,234,249) | -50.3% |
| Customer facility charges | 527,211 | 957,264 | (430,053) | -44.9% |
| Federal and state grants | 4,953,305 | - | 4,953,305 | 100.0% |
| Taxes - air flight, net | 333,195 | 394,832 | (61,637) | -15.6% |
| Interest and investment income | 173,407 | 566,128 | (392,721) | -69.4% |
| Miscellaneous | 8,180 | 3,080 | 5,100 | 165.6% |
| Gain on disposal or retirement of property and equipment | 2,500 | 8,095 | (5,595) | -69.1% |
| Total nonoperating revenues | <u>7,216,717</u> | <u>4,382,567</u> | <u>2,834,150</u> | 64.7% |
| Change in Net Position Before Capital Contributions | 3,022,098 | 3,927,253 | (905,155) | -23.0% |
| Capital Contributions | <u>6,253,016</u> | <u>4,256,425</u> | <u>1,996,591</u> | 46.9% |
| Change in Net Position | 9,275,114 | 8,183,678 | <u>\$ 1,091,436</u> | 13.3% |
| Total Net Position, Beginning of Year | <u>152,133,458</u> | <u>143,949,780</u> | | |
| Total Net Position, End of Year | <u>\$ 161,408,572</u> | <u>\$ 152,133,458</u> | | |

Sioux Falls Regional Airport Authority

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|--|----------------------|----------------------|
| Operating Activities | | |
| Cash received by providing services | \$ 4,864,542 | \$ 5,664,550 |
| Cash received from parking lot customers | 2,209,941 | 4,569,662 |
| Cash received for reimbursements | 118,050 | 143,215 |
| Payments to personnel | (2,511,716) | (2,338,972) |
| Payments to suppliers | (2,620,871) | (2,866,280) |
| Net Cash from Operating Activities | 2,059,946 | 5,172,175 |
| Non-Capital Financing Activities | | |
| Taxes - air flight | 333,195 | 394,832 |
| Adjacent property - runway safety area | - | 169,110 |
| Other contributions | 4,180,475 | 3,080 |
| Net Cash from Non-Capital Financing Activities | 4,513,670 | 567,022 |
| Capital and Related Financing Activities | | |
| Proceeds from contributions | 6,471,115 | 3,784,171 |
| Proceeds from passenger facility charges | 1,437,264 | 2,388,913 |
| Proceeds from customer facility charges | 590,857 | 933,717 |
| Proceeds from sale of property and equipment | 2,500 | 10,650 |
| Prepaid engineering services relating to capital assets | (131,545) | - |
| Purchases of property and equipment | (14,876,491) | (12,715,011) |
| Net Cash (used for) from Capital and Related Financing Activities | (6,506,300) | (5,597,560) |
| Investing Activities | | |
| Redemptions of certificates of deposit | 3,250,543 | 3,477,188 |
| Purchases of certificates of deposit | (3,490,000) | (3,500,000) |
| Interest received | 179,777 | 567,760 |
| Net Cash from Investing Activities | (59,680) | 544,948 |
| Net Change in Cash and Cash Equivalents | 7,636 | 686,585 |
| Cash and Cash Equivalents at Beginning of Year | 19,496,936 | 18,810,351 |
| Cash and Cash Equivalents at End of Year | \$ 19,504,572 | \$ 19,496,936 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash and cash equivalents consist of the following | | |
| Cash and cash equivalents | \$ 19,007,648 | \$ 17,784,723 |
| Restricted cash | 496,924 | 1,712,213 |
| | \$ 19,504,572 | \$ 19,496,936 |

Sioux Falls Regional Airport Authority

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|----------------|--------------|
| Reconciliation of Operating Loss to Net Cash from Operating Activities | | |
| Operating Loss | \$ (4,194,619) | \$ (455,314) |
| Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities | | |
| Depreciation | 5,823,363 | 5,472,787 |
| Changes in Assets and Liabilities | | |
| Accounts receivable | 380,887 | (2,882) |
| Inventories | (1,180) | 18,233 |
| Prepaid expenses | 391 | (34,645) |
| Accounts payable | (20,090) | (67,676) |
| Related to pension | 135,056 | 203,029 |
| Accrued expenses | (63,862) | 38,643 |
| | \$ 2,059,946 | \$ 5,172,175 |
| Net Cash from Operating Activities | | |
| Supplemental Disclosure of Noncash Financing Activities | | |
| Capital asset additions included in accounts payable | \$ 270,460 | \$ 1,731,765 |

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, 2020 and 2019, 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, 2020 and 2019, 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. 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 \$2,500. 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 and Expenses

The Authority recognizes operating revenue and expenses 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, these federal and state grant funds are recorded as capital contributions.

The Authority also received federal assistance from the federal government under the CARES Act. These funds may be used to finance current operations. Accordingly, these federal funds are recorded as non-operating revenues.

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

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 period(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.

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 was moved back to fiscal years beginning after June 15, 2021. 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, 2020, \$19,148,540 of the Authority's bank balance of \$19,398,540 was exposed to custodial credit risk as follows:

| | |
|--|-----------------------------|
| Uninsured and collateral held by pledging bank | \$ 19,148,540 |
| Uninsured and collateral held by the pledging bank's trust department not in the Authority's name | <u>232,414</u> |
| | <u><u>\$ 19,380,954</u></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, 2020, \$496,924 of CFC contributions are considered restricted cash 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:

| | 2020 | 2019 |
|-------------------------|--------------|--------------|
| Certificates of deposit | \$ 4,504,204 | \$ 4,264,747 |

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, 2020, 2019, and 2018, equal to required contributions each year, were \$105,537, \$97,805, and \$89,374, respectively.

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

At June 30, 2020 and 2019, SDRS is 100.04% and 100.09% 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, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| Proportionate share of net position restricted for pension benefits | \$ 9,615,498 | \$ 9,211,836 |
| Less proportionate share of total pension liability | <u>9,612,102</u> | <u>9,204,010</u> |
| Proportionate share of net pension asset | <u>\$ 3,396</u> | <u>\$ 7,826</u> |

At December 31, 2020 and 2019, the Authority reported an asset of \$3,396 and \$7,826, respectively, for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020 and 2019, 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, 2020, the Authority's proportion was 0.07819170%, which is an increase of 0.0043363% from its proportion measured as of June 30, 2019. 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.

For the years ended December 31, 2020 and 2019, the Authority recognized pension expense of \$135,057 and \$203,028, respectively.

Sioux Falls Regional Airport Authority

Notes to Financial Statements

December 31, 2020 and 2019

At December 31, 2020 and 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2020 | |
|---|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ 12,991 | \$ 2,660 |
| Changes in assumption | 109,383 | 441,148 |
| Net difference between projected and actual earnings on pension plan investments | 315,628 | - |
| Changes in proportion and difference between Authority contributions and proportionate share of contributions | - | 32,262 |
| Authority contributions subsequent to measurement date | 53,304 | - |
| | <u>\$ 491,306</u> | <u>\$ 476,070</u> |
| | 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 | - |
| | <u>\$ 349,045</u> | <u>\$ 203,183</u> |

Deferred outflows of resources related to pension resulting from the Authority's contributions subsequent to the June 30, 2020 measurement date of \$53,304 will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. 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:

| <u>Years Ending December 31,</u> | |
|----------------------------------|--------------------|
| 2021 | \$ (56,499) |
| 2022 | (40,133) |
| 2023 | 410 |
| 2024 | 58,154 |
| | <u>\$ (38,068)</u> |

Actuarial Assumptions

The total pension asset in the SDRS June 30, 2020 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 | 1.41% |

Mortality 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, 2020 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, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Global equity | 58.0% | 5.1% |
| Fixed income | 30.0% | 1.5% |
| Real estate | 10.0% | 6.2% |
| Cash | 2.0% | 1.0% |
| Total | <u>100.0%</u> | |

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, 2020 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:

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|--|--------------------|----------------------------------|--------------------|
| Authority's proportionate share of the net pension asset (liability) | \$ (1,317,365) | \$ 3,396 | \$ 1,083,752 |

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, 2020 and 2019, were as follows:

| | <u>Balance December 31, 2019</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance December 31, 2020</u> | <u>Current Portion</u> |
|----------------------|--|------------------|-------------------|--|----------------------------|
| Compensated absences | \$ 117,920 | \$ 103,753 | \$ (98,916) | \$ 122,757 | \$ 103,753 |
| | <u>Balance December 31, 2018</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance December 31, 2019</u> | <u>Current Portion</u> |
| Compensated absences | \$ 92,099 | \$ 100,005 | \$ (74,184) | \$ 117,920 | \$ 100,005 |

Sioux Falls Regional Airport Authority
Notes to Financial Statements
December 31, 2020 and 2019

Note 6 - Capital Assets

| | 2020 | | | |
|--|-----------------------|----------------------|-----------------------------|-----------------------|
| | Balance 1/1/20 | Additions | Retirements or Disposals | |
| Non-depreciable assets | | | | |
| Land | \$ 1,152,384 | \$ - | \$ - | \$ 1,152,384 |
| Construction in progress | 9,277,463 | 12,980,005 | (21,321,290) * | 936,178 |
| Total non-depreciable assets | <u>10,429,847</u> | <u>12,980,005</u> | <u>(21,321,290)</u> | <u>2,088,562</u> |
| Depreciable assets | | | | |
| Buildings | 62,263,861 | 5,434,110 | (3,330,022) | 64,367,949 |
| Improvements, other than buildings | 120,283,145 | 15,256,814 | (1,780,448) | 133,759,511 |
| Machinery and equipment | 9,381,586 | 1,065,547 | (494,601) | 9,952,532 |
| Total depreciable assets | <u>191,928,592</u> | <u>21,756,471</u> | <u>(5,605,071)</u> | <u>208,079,992</u> |
| Total capital assets | <u>202,358,439</u> | <u>34,736,476</u> | <u>(26,926,361)</u> | <u>210,168,554</u> |
| Accumulated depreciation includes | | | | |
| Buildings | 17,772,602 | 1,661,655 | (3,330,022) | 16,104,235 |
| Improvements, other than buildings | 51,395,989 | 3,641,945 | (1,780,448) | 53,257,486 |
| Machinery and equipment | 5,437,749 | 519,763 | (494,601) | 5,462,911 |
| Total accumulated depreciation | <u>74,606,340</u> | <u>5,823,363</u> | <u>(5,605,071)</u> | <u>74,824,632</u> |
| Total net capital assets | <u>\$ 127,752,099</u> | <u>\$ 28,913,113</u> | <u>\$ (21,321,290)</u> | <u>\$ 135,343,922</u> |
| 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 | <u>4,325,058</u> | <u>13,373,848</u> | <u>(7,269,059)</u> | <u>10,429,847</u> |
| Depreciable assets | | | | |
| Buildings | 56,094,827 | 6,169,034 | - | 62,263,861 |
| Improvements, other than buildings | 119,570,399 | 712,746 | - | 120,283,145 |
| Machinery and equipment | 8,855,457 | 713,028 | (186,899) | 9,381,586 |
| Total depreciable assets | <u>184,520,683</u> | <u>7,594,808</u> | <u>(186,899)</u> | <u>191,928,592</u> |
| Total capital assets | <u>188,845,741</u> | <u>20,968,656</u> | <u>(7,455,958)</u> | <u>202,358,439</u> |
| 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 accumulated depreciation | <u>69,317,896</u> | <u>5,472,787</u> | <u>(184,343)</u> | <u>74,606,340</u> |
| Total net capital assets | <u>\$ 119,527,845</u> | <u>\$ 15,495,869</u> | <u>\$ (7,271,615)</u> | <u>\$ 127,752,099</u> |

* Construction in progress transferred to capital assets

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 \$2,450,334 respectively, at December 31, 2020, and were \$7,854,241 and \$2,293,249 respectively, at December 31, 2019. 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:

| <u>Years Ending December 31,</u> | |
|----------------------------------|-----------------------------|
| 2021 | \$ 2,192,796 |
| 2022 | 2,028,591 |
| 2023 | 1,959,213 |
| 2024 | 944,127 |
| 2025 | 781,689 |
| Thereafter | <u>5,156,063</u> |
| | <u><u>\$ 13,062,479</u></u> |

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 \$2,501,471, and \$5,120,458 in 2020 and 2019, respectively, net of management fees paid of \$273,860 and \$530,208, 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. During 2020, the minimum annual guarantee was waived due to the COVID-19 pandemic. 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, 2020 as follows:

| | <u>Total</u> | <u>Cost Covered</u> | <u>Costs Incurred</u> | <u>Cost to</u> |
|------------------------------------|----------------------|---------------------|-----------------------|---------------------|
| | <u>Project Costs</u> | <u>by Grants</u> | <u>to Date</u> | <u>Complete</u> |
| Baggage Claim Server Replacement | \$ 235,736 | \$ - | \$ 205,608 | \$ 30,128 |
| Security Camera Server Replacement | 71,540 | - | 35,770 | 35,770 |
| Terminal Apron W Cargo/E Cargo | 74,821 | - | 14,964 | 59,857 |
| Runway 3-21 Reconstruction Phase 3 | 11,153,473 | 10,595,799 | 470,221 | 10,683,252 |
| Parking Garage | 229,615 | - | 209,615 | 20,000 |
| | <u>\$11,765,184</u> | <u>\$10,595,799</u> | <u>\$ 936,178</u> | <u>\$10,829,006</u> |

In 2021, the Authority signed additional contract commitments totaling \$4,958,150, of which \$488,756 will be reimbursed by the State of South Dakota Department of Transportation, \$2,463,383 relates to the parking garage, \$934,545 relates to Runway 3-21 Reconstruction Phase 3 and other costs which are potentially eligible for reimbursement under the CARES Act Airport Improvement Program grant.

The Authority has approved forward commitments of support to various community agencies totaling \$2,325,000 through 2026, of which \$1,425,000 remained outstanding as of December 31, 2020.

COVID-19

Due to the COVID-19 pandemic, the Authority has experienced a significant decline in operating revenues as a result of the decrease in domestic and international travel. Air travel has started to recover but uncertainty still exists a full recovery to pre-COVID number. Federal CARES Act grants will allow the Authority to recoup most of the lost revenues.

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, 2020, 2019, and 2018.

Note 10 - Subsequent Events

Subsequent to year end, the Authority was notified of an Airport Coronavirus Response Grant Program Grant Offer under the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSSA) in the amount of \$3,802,183 which can be used over a four year period for operations, personnel, cleaning, sanitation, janitorial services, combating the spread of pathogens at the airport and debt service payments.



Required Supplementary Information
December 31, 2020

Sioux Falls Regional Airport Authority

Sioux Falls Regional Airport Authority
 Schedule of Authority's Contributions
 December 31, 2014 through 2020

**South Dakota Retirement System
 Last 10 Years ****

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|----------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|-------------|
| Contractually required contribution | \$ 105,537 | \$ 97,805 | \$ 89,374 | \$ 82,022 | \$ 74,827 | \$ 62,852 | \$ 60,965 | \$ - | \$ - | \$ - |
| Contributions in relation to the contractually required contribution | <u>105,537</u> | <u>97,805</u> | <u>89,374</u> | <u>82,022</u> | <u>74,827</u> | <u>62,852</u> | <u>60,965</u> | - | - | - |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Authority's covered payroll | \$ 1,758,955 | \$ 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% | 6.00% | 6.09% | 6.05% | 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.

Sioux Falls Regional Airport Authority
Schedule of Authority's Proportionate Share of the Net Pension Liability (Asset)
December 31, 2014 through 2020

**South Dakota Retirement System
Last 10 Years ****

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------|------|------|
| Authority's proportion of the net pension liability (asset) | 0.0781917% | 0.0738554% | 0.0691863% | 0.0639804% | 0.0594110% | 0.0570954% | 0.0543941% | % | % | % |
| Authority's proportionate share of net pension liability (asset) | \$ (3,396) | \$ (7,826) | \$ (1,613) | \$ (5,806) | \$ 200,685 | \$ (242,158) | \$ (391,887) | \$ - | \$ - | \$ - |
| Authority's covered payroll | \$ 1,671,082 | \$ 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 | 0.20% | 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% | 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

Benefit Provision Changes

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020 and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

Actuarial Assumption Changes

The SDRS COLA equals 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, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

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.

Actuarial Method Changes

No changes in actuarial methods were made since the prior 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, 2020, 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 May 21, 2021.

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) as a basis for designing 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 2020-001 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 financial statements. 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.



Sioux Falls, South Dakota

May 21, 2021



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, 2020. 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, 2020.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2020-003 and 2020-004 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-002 to be a significant deficiency.

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
May 21, 2021



Supplemental Information
December 31, 2020

Sioux Falls Regional Airport Authority

Sioux Falls Regional Airport Authority
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

| Grantor/Program Title | Federal CFDA Number | Project Number | Program or Award Amount | Expenditures |
|--------------------------------------|------------------------|-------------------|-------------------------------|----------------------|
| <u>Department of Transportation</u> | | | | |
| Airport Improvement Program | 20.106 | AIP3-46-0050-52 | \$ 3,240,204 | \$ 11,351 |
| Airport Improvement Program | 20.106 | AIP3-46-0050-53 | 8,020,815 | 5,001,083 |
| COVID-19 Airport Improvement Program | 20.106 | AIP3-46-0050-54 | 22,454,505 | 5,414,599 |
| Airport Improvement Program | 20.106 | AIP3-46-0050-55 | <u>10,040,465</u> | <u>418,318</u> |
| Total federal financial assistance | | | <u>\$ 43,755,989</u> | <u>\$ 10,845,351</u> |

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, 2020. 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 \$163,976 were expended in the prior fiscal year. These expenditures were approved for payment by the federal agency in 2020 through grant awards or amendments and are included on the schedule of expenditures of federal awards for year ending December 31, 2020.

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

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 remaining overnight apron. Design and construct south terminal apron partial pavement replacement; east cargo apron expansion.

Project Number AIP-46-0050-54: CARE Act Grants to reimburse airport operational and maintenance expenses directly related to Joe Foss Field incurred no earlier than January 20, 2020.

Project Number AIP-46-0050-55: Reconstruct runway 3-21 Approach ends, construct runway 3-21 shoulders, install new HIRLs and reconstruct runway 21 MALSR threshold bar.

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 | Yes |
| 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:

| | |
|---|--------------------|
| <u>Name of Federal Program or Cluster</u> | <u>CFDA number</u> |
| 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 2020-001 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 2020-002 Department of Transportation
CFDA #20.106; AIP3-46-0050-54
Airport Improvement Program**

**Activities Allowed/Allowable Costs
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. Procedures relating to determining the allowability of costs in accordance with 2 CFR Subpart E should identify costs that are not eligible for reimbursement.

Condition: Internal controls failed to detect a request for reimbursement request for an unallowable cost relating to promotional expenses.

Cause: Management failed to perform a detailed review of all expenditures for allowability within the cost principles 2 CFR 200 Subpart E.

Effect: A unallowed cost for \$12,500 was submitted for reimbursement in error.

Questioned Costs: None reported. The unallowed cost was removed by the sponsor agency and there was no reimbursement for the cost

Context/Sampling: Nonstatistical sampling was not used.

Repeat Finding from Prior Year: No

Recommendation: Management should perform a detailed review of all costs prior to submission to evaluate for allowability.

Views of Responsible Officials: Management agrees with the finding.

**Finding 2020-003 Department of Transportation
CFDA #20.106, AIP3-46-0050-53, AIP3-46-0050-54
Airport Improvement Program**

**Special Tests & Provisions: Davis Bacon
Material Weakness 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) 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.

Condition: The Authority uses a 3rd party contractor to monitor compliance with Davis Bacon prevailing wage requirements. The 3rd party firm did not formally document review of payroll certification provided by contractors.

Cause: The 3rd party contractor did not formally document review of payroll certification provided by contractors.

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 eight weeks out of 36 weeks in which contractors were performing work.

Repeat Finding from Prior Year: Yes

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

Views of Responsible Officials: Management agrees with the finding.

**Finding 2020-004 Department of Transportation
CFDA #20.106, AIP3-46-0050-54
Airport Improvement Program**

**Suspension and Debarment
Material Weakness in Internal Control over Compliance**

Criteria: Under 2 CFR 200.213, the Authority is required to have procedures in place to ensure they are not making subawards to parties that are suspended or debarred. In addition, 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The Authority contracts with a 3rd party to monitor for suspension and debarment requirements over capital expenditures, but that 3rd party agreement does not include responsibilities to monitor for suspension or debarment of other covered vendors reimbursed for operational expenditures under the CARES Act grant.

Cause: The Authority was aware of the requirements but did not consider the covered vendors submitted for reimbursement under the CARES Act grant.

Effect: Controls over suspension and debarment 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 three of thirteen vendors.

Repeat Finding from Prior Year: No

Recommendation: We recommend establishing procedures that include a review of covered vendors for suspension and debarment prior to requesting reimbursement, as well as adequate monitoring controls to ensure the procedures are implemented.

Views of Responsible Officials: Management is in agreement.



Joe Foss Field, 2801 Jaycee Lane, Sioux Falls, SD 57104
605.336.0762 | FAX: 605.367.7374 | airport@sfairport.com
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, 2020

Prepared by Management of
Sioux Falls Regional Airport Authority

Sioux Falls Regional Airport Authority
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Financial Statement Findings

Finding 2019-1

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 Bailly LLP prepare our draft financial statement and accompanying notes to the financial statements.

Federal Award Findings and Questioned Costs

Finding 2019-002

Initial Fiscal Year Finding Occurred: 2019

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.

Status: Resolved.

Finding 2019-003

Initial Fiscal Year Finding Occurred: 2019

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.

Status: Finding has not been fully corrected. See finding 2020-003

Sioux Falls Regional Airport Authority

Corrective Action Plan

April 21, 2021

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, 2020.

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, 2020 – December 31, 2020

The findings from the 2020 schedule of findings and questioned costs are discussed below:

Financial Statement Findings

Finding 2020-001

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 2020-002

Department of Transportation

Airport Improvement Program, CFDA #20.106

AIP3-46-0050-54

Finding Summary: Internal controls failed to detect a request for reimbursement request for an unallowable cost relating to promotional expenses. The unallowed cost was removed by the sponsor agency and there was no reimbursement for the cost.

Responsible Individuals: Dan Letellier, Executive Director

Corrective Action Plan: Management will perform a detailed review of all expenditures for allowability within the cost principles 2 CFR 200 Subpart E.

Sioux Falls Regional Airport Authority
Corrective Action Plan
April 21, 2021

Anticipated Completion Date: Ongoing

Finding 2020-003
Department of Transportation
Airport Improvement Program, CFDA #20.106
AIP3-46-0050-53, AIP3-46-0050-54

Finding Summary: The Airport Authority utilizes a contractor to monitor compliance with Davis Bacon prevailing wage requirements. The 3rd party firm did not formally document review of payroll certification provided by contractors.

Responsible Individuals: Dan Letellier, Executive Director

Corrective Action Plan: Management will require a 3rd party accountant to implement processes for formal documentation of review over review of contractor payroll certifications reviewed.

Anticipated Completion Date: Ongoing

Finding 2020-004
Department of Transportation
Airport Improvement Program, CFDA #20.106
AIP3-46-0050-54

Finding Summary: The Authority contracts with a 3rd party to monitor for suspension and debarment requirements over capital expenditures, but that 3rd party agreement does not include responsibilities to monitor for suspension or debarment of other covered vendors reimbursed for operational expenditures under the CARES Act grant.

Responsible Individuals: Dan Letellier, Executive Director

Corrective Action Plan: Management will implement a process to review vendors submitted for reimbursement under the CARES Act grant for suspension and debarment for operational expenses.

Anticipated Completion Date: Ongoing