Financial Statements
December 31, 2017 and 2016

Sioux Falls Regional Airport Authority

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, 2017 and 2016, 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, 2017 and 2016, 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.

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 3 to 6 and the Schedule of Authority's Contributions and Schedule of Authority's Proportionate Share of Net Pension Liability (Asset) on pages 25 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 23, 2018 on our consideration of Sioux Falls Regional Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sioux Falls Regional Airport Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sioux Falls Regional Airport Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Sioux Falls, South Dakota
April 23, 2018

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 achieved a seventh consecutive year of record passenger traffic in 2017. The airport recorded a total of 1,082,461 passengers traveling through the airport, an increase of 6.5% versus the previous year. Passenger enplanements also set a record with 541,589 departing the airport in 2017. The concession revenue for parking, food and car rental also saw significant revenue increases for the year. The Parking concession saw the biggest percentage increase of 15.4% versus the prior year.

The following tables show the significant changes that have taken place over the past three fiscal years ended December 31, 2017, 2016 and 2015.

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

	2017	2016	2015
Total Assets			
Capital	$ 109,485,215	$ 101,859,158	$ 100,573,948
Other	18,875,820	15,007,998	14,746,000
	128,361,035	116,867,156	115,319,948
Deferred Outflow of Resources			
Related to pension	585,987	451,400	427,236
Total assets and deferred outflows	$ 128,947,022	$ 117,318,556	$ 115,747,184
Total Liabilities			
Long-term	$ 14,942	$ 214,597	$ 14,086
Other	803,788	896,511	1,003,853
	818,730	1,111,108	1,017,939
Deferred Inflow of Resources			
Related to pension	130,364	8,587	357,309
Total liabilities and deferred inflows	$ 949,094	$ 1,119,695	$ 1,375,248
Total Net Position			
Invested in capital assets	$ 109,485,215	$ 101,859,158	$ 100,573,948
Restricted for pension benefits	461,429	242,128	312,085
Unrestricted	18,051,284	14,097,575	13,485,903
	$ 127,997,928	$ 116,198,861	$ 114,371,936

Changes in Statement of Revenues, Expenses, and Net Position

	2017	2016	2015
Operating Revenues			
Rentals and commissions, net	$ 8,069,308	$ 7,371,154	$ 6,993,816
Landing fees	903,720	854,167	716,210
State security reimbursements	127,312	124,875	114,670
Fines, forfeitures and other revenue	57,811	39,214	40,274
	9,158,151	8,389,410	7,864,970
Operating Expenses			
Depreciation	4,827,197	4,677,118	4,061,691
Personnel	1,730,723	1,865,866	1,468,841
Professional services	830,202	885,644	827,948
Utilities and bulk energy	548,518	464,569	581,260
Repairs and maintenance	286,784	342,845	360,565
Supplies and materials	125,714	145,860	93,626
Insurance	165,589	141,418	142,579
Bad debt expense (recovery)	(17,438)	(8,559)	(6,247)
Other expenses	267,216	267,152	283,187
	8,764,505	8,781,913	7,813,450

	2017	2016	2015
Nonoperating Revenues (Expenses)			
Federal and state grants	$ -	$ 649,743	$ 483,382
Passenger facility charges	2,220,586	-	-
Interest and investment income	104,503	63,651	45,208
Taxes, air flight, net	427,113	445,278	514,890
Loss on disposal or retirement of property and equipment	-	-	(142,395)
Miscellaneous	678	2,852	912
Adjacent property - runway safety area	(62,027)	(1,037,396)	(889,260)
	2,690,853	124,128	12,737
Change in Net Position Before Capital Contributions	3,084,499	(268,375)	64,257
Capital contributions	8,714,568	2,095,300	6,944,002
Change in Net Position	$ 11,799,067	$ 1,826,925	$ 7,008,259

The Authority's total net position increased $11,799,067 or 10.1% over the course of this year's operations.

The Sioux Falls Regional Airport continues to invest in infrastructure projects that enhance the safety of the airfield but also accommodates growth for the many users of the airport. An expansion of the West-General Aviation ramp for $1,250,000 provides additional aircraft parking space for the growing Maverick Air Center operation and Sanford Air Medical. Access to the west side of the airfield was also improved with the rehabilitation and reconstruction of National Guard Drive. This joint project with the SD Army National Guard improves traffic flow to the general aviation area and the SD Armory. The funding was shared by the Airport Authority and Army Guard totaling $1,700,000. A major runway replacement project began in April 2017 with the reconstruction of 2,500 feet of runway 3-21. This first phase of construction was awarded to T.R. Contracting of Sioux Falls, SD for $9,190,000 which took place from April through October. Major funding sources for the project were the FAA, SD Air National Guard and the Airport Authority. Construction was awarded for phase 2 of the runway reconstruction which will take place in 2018. The $10,712,000 project was awarded to Reede Construction of Aberdeen, SD and will replace 4,000 feet of runway closing Runway 3-21 for six months. The project will again be funded with a FAA Airport Improvement Grant, State matching funds along with support from the South Dakota Air National Guard.

After several years of design and negotiation with U.S. Customs, work to upgrade our Federal Clearance and Inspection Facility began in August. The $450,000 project brought the area into compliance with the latest security enhancements for a General Aviation Facility. The newly renovated area provides International clearance for general aviation flights into the U.S. from other countries. The majority of flights cleared are from Canada and Mexico, especially in the fall hunting season.

The Authority's investment in capital assets amounts to $109,485,215 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in progress. The total increase in capital assets for the current fiscal year was approximately 7.5%. Additional information on the Authority's capital assets can be found in Note 6, Capital Assets.

In 2017, the largest operating revenue source was parking lot revenue at $4,851,757 up 15.4% from 2016. 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 3.8% versus the prior year. In 2017, on site-car rental agency revenue reported to the Authority totaled $14,135,617 resulting in commissions paid to the Authority of $1,481,075.

In December, the Airport began accepting passengers transported via the Transportation Network Company Lyft for the first time. The app based transportation system will have a significant impact on how travelers get to and from the airport. In order to offset some of the revenue lost from parking and rental car concessions, the Authority signed an operating agreement with Lyft that will provide the airport with a $2.00 fee for every passenger pick-up which occurs at the terminal. The agreement is for one year to determine the revenue impact of this new transportations service on traditional revenue sources for the Authority.

The Airport Authority received final approval from the FAA to begin collection of a Passenger Facility Charge (PFC) effective January 1, 2017. The fee will be collected to reimburse the Airport Authority on past projects funded using airport reserves. Eleven projects totaling $17,612,920 will be repaid through 2025 utilizing the fee collected by passengers departing the airport. The $4.50 fee per ticketed passenger provided $2,220,586 in additional revenue during 2017.

The Sioux Falls Regional Airport Authority continues on firm footing. The Authority has no long-term debt. As we look forward to 2018, the Authority remains hopeful that passenger traffic will hold steady throughout the year with flight or slight growth of 1-2%.

FINANCIAL HIGHLIGHTS - 2016

The Sioux Falls Regional Airport set a new milestone in 2016 surpassing for the first time one million travelers. The airport recorded a total of 1,027,022 passengers using the facility, an increase of 5.7% from the previous year. Passenger enplanements also set a record with 510,487 departing the airport in 2016. The concession revenue for parking, food and car rental also saw increases in revenue similar to the 5% passenger increase for the year. The gift and retail concession saw the biggest percentage increase of 12.7% versus the prior year.

The Sioux Falls Regional Airport continued to fund infrastructure projects both on the airfield and at the terminal to ensure our facilities can accommodate the needs of our existing customers and the expected growth in the future. In 2016 airfield projects consisted of a $1,311,000 effort to repair/replace sections of Alpha Taxiway as well as construct a new general aviation taxi-lane to accommodate new hangars constructed by Sanford Health and Maverick Air Center on our West General Aviation ramp.

We entered the final phase of our checkpoint expansion and lobby renovation project which has been ongoing since November of 2014. Final phases were completed in November of 2016 with the total cost for the project coming to $13.2 million. This significant accomplishment has provided for a much larger security checkpoint area, new administrative offices, expanded lobby, new escalators and elevators as well as major electrical and other infrastructure improvements.

The Authority's investment in capital assets amounts to $101,859,158 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in progress. The total increase in capital assets for the current fiscal year was approximately 1.2%. Additional information on the Authority's capital assets can be found in Note 6, Capital Assets.

In 2016, the largest operating revenue source was parking lot revenue at $4,205,709 up 3.2% from 2015. 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 5.4% from the prior year. In 2016, on site-car rental agency revenue reported to the Authority totaled $13,599,558 resulting in commissions paid to the Authority of $1,426,776.

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	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 13,262,987	$ 9,153,963
Accounts receivable, less allowance for doubtful accounts $-0- and $17,438 in 2017 and 2016	543,802	506,794
Grants receivable	304,987	784,343
Passenger facility charges receivable	285,464	-
Due from related party	169,110	-
Interest receivable	-	2,231
Inventories	98,933	92,194
Prepaid expenses	44,551	22,891
Total current assets	14,709,834	10,562,416
Investments		
Certificates of deposit	3,990,446	3,937,360
U.S. Agency securities	625	894
Total investments	3,991,071	3,938,254
Other Assets		
Pension asset	5,806	-
Due from related party, net of current portion	169,109	507,328
Total other assets	174,915	507,328
Capital Assets		
Land	1,152,384	1,152,384
Buildings	56,042,802	55,565,841
Improvements other than buildings	107,652,097	95,554,060
Machinery and equipment	8,765,936	8,592,547
Construction in progress	320,136	615,269
	173,933,355	161,480,101
Less accumulated depreciation	(64,448,140)	(59,620,943)
Total capital assets	109,485,215	101,859,158
Total assets	128,361,035	116,867,156
Deferred Outflow of Resources		
Related to pension	585,987	451,400
Total assets and deferred outflow of resources	$ 128,947,022	$ 117,318,556

See Notes to Financial Statements

	2017	2016
Liabilities		
Current Liabilities		
Accounts payable	$ 655,196	$ 771,007
Accrued salaries	72,878	56,519
Compensated absences	75,714	68,985
Total current liabilities	803,788	896,511
Long-Term Liabilities		
Pension liability	-	200,685
Compensated absences - long-term	14,942	13,912
Total liabilities	818,730	1,111,108
Deferred Inflow of Resources		
Related to pension	130,364	8,587
Total liabilities and deferred inflow of resources	949,094	1,119,695
Net Position		
Invested in capital assets	109,485,215	101,859,158
Restricted for pension benefits	461,429	242,128
Unrestricted	18,051,284	14,097,575
Total net position	127,997,928	116,198,861
Total liabilities, deferred inflow of resources, and net position	$ 128,947,022	$ 117,318,556

	2017	2016	Dollar Change	Percentage Change
Operating Revenues				
Rentals and commissions, net	$ 8,069,308	$ 7,371,154	$ 698,154	9.5%
Landing fees	903,720	854,167	49,553	5.8%
State security reimbursements	127,312	124,875	2,437	2.0%
Fines, forfeitures and other revenue	57,811	39,214	18,597	47.4%
Total operating revenues	9,158,151	8,389,410	768,741	9.2%
Operating Expenses				
Depreciation	4,827,197	4,677,118	150,079	3.2%
Personnel	1,730,723	1,865,866	(135,143)	-7.2%
Professional services	830,202	885,644	(55,442)	-6.3%
Utilities and bulk energy	548,518	464,569	83,949	18.1%
Repairs and maintenance	286,784	342,845	(56,061)	-16.4%
Supplies and materials	125,714	145,860	(20,146)	-13.8%
Insurance	165,589	141,418	24,171	17.1%
Bad debt expense (recovery)	(17,438)	(8,559)	(8,879)	103.7%
Other expenses	267,216	267,152	64	0.0%
Total operating expenses	8,764,505	8,781,913	(17,408)	-0.2%
Operating Income (Loss)	393,646	(392,503)	786,149	-200.3%
Nonoperating Revenues (Expenses)				
Federal and state grants	-	649,743	(649,743)	-100.0%
Passenger facility charges	2,220,586	-	2,220,586	100.0%
Taxes - air flight, net	427,113	445,278	(18,165)	-4.1%
Interest and investment income	104,503	63,651	40,852	64.2%
Miscellaneous	678	2,852	(2,174)	-76.2%
Adjacent property - runway safety area	(62,027)	(1,037,396)	975,369	-94.0%
Total nonoperating revenues	2,690,853	124,128	2,566,725	2067.8%
Change in Net Position Before Capital Contributions	3,084,499	(268,375)	3,352,874	-1249.3%
Capital Contributions	8,714,568	2,095,300	6,619,268	315.9%
Change in Net Position	11,799,067	1,826,925	$ 9,972,142	545.8%
Total Net Position, Beginning of Year	116,198,861	114,371,936		
Total Net Position, End of Year	$ 127,997,928	$ 116,198,861		

	2017	2016
Operating Activities		
Cash received by providing services	$ 4,754,348	$ 4,669,744
Cash received from parking lot customers	4,172,155	3,655,001
Cash received for reimbursements	138,082	113,135
Payments to personnel	(1,925,906)	(1,854,992)
Payments to suppliers	(2,158,295)	(1,968,351)
Net Cash from Operating Activities	4,980,384	4,614,537
Non-Capital Financing Activities		
Proceeds from federal and state grants	124,524	962,713
Taxes - air flight	483,065	389,326
Adjacent property - runway safety area	107,082	(669,249)
Other contributions	88,990	52,852
Net Cash from Non-Capital Financing Activities	803,661	735,642
Capital and Related Financing Activities		
Proceeds from contributions	8,969,400	2,980,610
Proceeds from passenger facility charges	1,935,122	-
Purchases of property and equipment	(12,633,460)	(6,140,530)
Net Cash used for Capital and Related Financing Activities	(1,728,938)	(3,159,920)
Investing Activities		
Redemptions of certificates of deposit	3,938,360	1,746,640
Purchases of certificates of deposit	(4,000,000)	(1,948,000)
Redemptions of investments	214	100
Interest received	115,343	63,651
Net Cash from (used for) Investing Activities	53,917	(137,609)
Net Change in Cash and Cash Equivalents	4,109,024	2,052,650
Cash and Cash Equivalents at Beginning of Year	9,153,963	7,101,313
Cash and Cash Equivalents at End of Year	$ 13,262,987	$ 9,153,963

	2017	2016
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:		
Operating Income (Loss)	$ 393,646	$ (392,503)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:		
Depreciation	4,827,197	4,677,118
Allowance for doubtful accounts	(17,438)	(8,559)
Changes in Assets and Liabilities		
Accounts receivable	(63,834)	(22,682)
Inventories	(6,739)	(1,993)
Prepaid expenses	(21,660)	222,513
Accounts payable	64,395	59,812
(Increase) decrease related to pensions	(219,301)	69,957
Accrued expenses	24,118	10,874
Net Cash from Operating Activities	$ 4,980,384	$ 4,614,537
Supplemental Disclosure of Noncash Financing Activities		
Capital asset additions included in accounts payable	$ 211,100	$ 391,306

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. Prior to January 1, 1987, the Authority operated as an enterprise fund 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, 2017 and 2016, 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.

Inventories

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

Investments

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

Property and Equipment

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

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

Accrued Absences and Sick Leave

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

Operating Revenue

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

Air Flight Property Taxes

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

Federal and State Grants

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

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.

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

Annual Budgets

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

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 U.S. Agency securities held by the Authority have a credit rating of "Aaa".

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, 2017, $13,128,288 of the Authority’s bank balance of $17,368,734 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	$ 12,639,352
Uninsured and collateral held by the pledging bank's trust department not in the Authority's name	488,936
	$ 13,128,288

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.

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.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the table below that shows the distribution of the Authority's investments by maturity.

As of December 31, 2017, U.S. Agency securities consisted of the following debt/debentures:

	Credit Rating *	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Federal Home Loan Mortgage Corp.	Aaa	$ 580	$ 625	$ 45

As of December 31, 2017, maturity dates for debt/debentures were as follows:

	Fair Value	Maturity Date			
		Less than 1 Year	1-5 Years	6-10 Years	11-20 Years
Federal Home Loan Mortgage Corp.	$ 625	$ -	$ -	$ 625	$ -

As of December 31, 2016, U.S. Agency securities consisted of the following debt/debentures:

	Credit Rating *	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Federal Home Loan Mortgage Corp.	Aaa	$ 793	$ 894	$ 101

* Moody's Investors Service

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 and U.S. Agency securities are categorized as level 2.

	Fair Value December 31, 2017	Fair Value December 31, 2016
Certificates of deposit	$ 3,990,446	$ 3,937,360
U.S. Agency securities	625	894
	$ 3,991,071	$ 3,938,254

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 employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits to plan members and beneficiaries. 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 http://www.sdrs.sd.gov/publications/, or 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, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percentage of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more -- 3.1% Cost-of-Living Adjustment (COLA)
- If the SDRS market value funded ratio is 80% to 99.9%, indexed with the CPI
    - 90.0% to 99.9% funded -- 2.1% minimum and 2.8% maximum COLA
    - 80.0% to 90.0% funded -- 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- 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 make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Authority’s share of contributions to the SDRS for the years ended December 31, 2017, 2016, and 2015, equal to required contributions each year, were $82,022, $74,827, and $62,852, respectively.

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

At June 30, 2017, SDRS is 100% funded and accordingly has a net pension asset. At June 30, 2016, SDRS was 97% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension asset (liability) of SDRS, for the Authority as of December 31, 2017 and 2016 are as follows:

	2017	2016
Proportionate share of net position restricted for pension benefits	$ 7,449,902	$ 6,246,153
Less proportionate share of total pension liability	7,444,096	6,446,838
Proportionate share of net pension asset (liability)	$ 5,806	$ (200,685)

The net pension asset (liability) was measured as of June 30, 2017 and 2016 and the total pension asset (liability) used to calculate the net pension asset (liability) was determined by actuarial valuation as of those dates. At December 31, 2017 and 2016, the Authority reported an asset of $5,806 and a liability of $200,685, respectively, for its proportionate share of the net pension asset (liability). The total pension assets (liabilities) used to calculate the net pension assets (liabilities) were 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, 2017 and 2016, the Authority's proportion was 0.0639804% and 0.0594110%, respectively.

For the year ended December 31, 2017, the Authority recognized a reduction of pension expense of $137,280. For the year ended December 31, 2016, the Authority recognized pension expense of $137,740.

At December 31, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 93,033	$ -
Changes in assumption	450,822	-
Net difference between projected and actual earnings on pension plan investments	-	111,632
Changes in proportion and difference between Authority contributions and proportionate share of contributions	-	18,732
Authority contributions subsequent to measurement date	42,132	-
	$ 585,987	$ 130,364

	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 69,863	$ -
Changes in assumption	120,200	-
Net difference between projected and actual earnings on pension plan investments	223,229	-
Changes in proportion and difference between Authority contributions and proportionate share of contributions	-	8,587
Authority contributions subsequent to measurement date	38,108	-
	$ 451,400	$ 8,587

Deferred outflows of resources related to pension resulting from the Authority's contributions subsequent to the June 30, 2017 measurement date of $42,132 will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year End December 31,	
2018	$ 111,024
2019	190,597
2020	140,068
2021	(28,198)
Total	$ 413,491

Actuarial Assumptions

The total pension asset in the SDRS June 30, 2017 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%
Investment rate of return	6.50% net of pension plan investment expense
Mortality rates	Mortality rates were based on 97% of the RP-2014 Mortality Table, 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, projected generationally with Scale MP-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, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that employee 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 (liability).

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, 2017 calculated using the discount rate of 6.50%, as well as what the Authority's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Authority's proportionate share of the net pension asset (liability)	$ (1,063,421)	$ 5,806	$ 876,505

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, 2017 and 2016, were as follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Current Portion
Compensated absences	$ 82,897	$ 75,714	$ (67,955)	$ 90,656	$ 75,714

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Current Portion
Compensated absences	$ 79,065	$ 69,360	$ (65,528)	$ 82,897	$ 68,985

Note 6 - Capital Assets

	2017			
	Balance 1/1/17	Additions	Retirements or Disposals	Balance 12/31/17
Non-depreciable assets:				
Land	$ 1,152,384	$ -	$ -	$ 1,152,384
Construction in progress	615,269	320,136	(615,269)	320,136
Total non-depreciable assets	1,767,653	320,136	(615,269)	1,472,520
Depreciable assets:				
Buildings	55,565,841	476,961	-	56,042,802
Improvements, other than buildings	95,554,060	12,098,037	-	107,652,097
Machinery and equipment	8,592,547	173,389	-	8,765,936
Total depreciable assets	159,712,448	12,748,387	-	172,460,835
Total capital assets	$ 161,480,101	$ 13,068,523	$ (615,269)	$ 173,933,355

Accumulated depreciation includes:	Balance 1/1/17	Additions	Retirements or Disposals	Balance 12/31/17
Buildings	$ 13,321,949	$ 1,469,732	$ -	$ 14,791,681
Improvements, other than buildings	41,927,351	2,942,951	-	44,870,302
Machinery and equipment	4,371,643	414,514	-	4,786,157
	$ 59,620,943	$ 4,827,197	$ -	$ 64,448,140

	2016			
	Balance 1/1/16	Additions	Retirements or Disposals	Balance 12/31/16
Non-depreciable assets:				
Land	$ 1,152,384	$ -	$ -	$ 1,152,384
Construction in progress	195,713	419,556	-	615,269
Total non-depreciable assets	1,348,097	419,556	-	1,767,653
Depreciable assets:				
Buildings	52,493,250	3,072,591	-	55,565,841
Improvements, other than buildings	93,700,975	1,853,085	-	95,554,060
Machinery and equipment	7,975,451	617,096	-	8,592,547
Total depreciable assets	154,169,676	5,542,772	-	159,712,448
Total capital assets	$ 155,517,773	$ 5,962,328	$ -	$ 161,480,101

Accumulated depreciation includes:	Balance 1/1/16	Additions	Retirements or Disposals	Balance 12/31/16
Buildings	$ 11,932,247	$ 1,389,702	$ -	$ 13,321,949
Improvements, other than buildings	39,062,229	2,865,122	-	41,927,351
Machinery and equipment	3,949,349	422,294	-	4,371,643
	$ 54,943,825	$ 4,677,118	$ -	$ 59,620,943

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 $1,979,079 respectively, at December 31, 2017, and were $7,854,241 and $1,821,995 respectively, at December 31, 2016. The Authority also leases airport and terminal facilities under various lease agreements.

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

Years Ending December 31,	
2018	$ 1,681,491
2019	1,133,786
2020	894,883
2021	724,803
2022	654,693
Thereafter	6,133,273
	$ 11,222,929

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 includes parking lot revenue of $4,851,758, and $4,205,709 in 2017 and 2016, respectively, net of management fees paid of $649,871 and $551,903, respectively. 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, 2017 as follows:

	Total Project Costs	Cost Covered by Grants	Costs Incurred to Date	Cost to Complete
Perimeter Fence Replacement	$ 464,306	$ -	$ 14,760	$ 449,546
Baggage Claim Expansion	5,918,867	-	178,420	5,740,447
Runway 3-21 Reconstruction Phase II	10,839,614	8,684,554	126,956	10,712,658
	$ 17,222,787	$ 8,684,554	$ 320,136	$ 16,902,651

In addition, the Authority has future commitments of approximately $419,000 related to the National Guard Drive and Runway 3-21 Reconstruction Phase I projects for which the completed portions of the project have been capitalized and placed in service as of December 31, 2017.

The Authority has approved forward commitments of support to various community agencies totaling $1,125,000 through 2021, of which $900,000 remained outstanding as of December 31, 2017.

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, 2017, 2016, and 2015.

Note 10 - Related Party Transactions

At December 31, 2017 and 2016, the Authority had $338,219 and $507,328, respectively, receivable from the City of Sioux Falls related to improvements to the adjacent property runway safety area correction. The remaining receivable is scheduled to be repaid in two equal installments in June 2018 and 2019.

Note 11 - Subsequent Events

During February 2018, the Authority began assessing a customer facility charge (CFC) to rental car concessionaires. Current charges, established by the Authority, are $3 per contract day. The proceeds from CFCs are restricted for future rental car facilities construction projects and will be recorded as non-operating revenues.

Required Supplementary Information
December 31, 2017 and 2016

Sioux Falls Regional Airport Authority

South Dakota Retirement System
Last 10 Years **

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 82,022	$ 74,827	$ 62,852	$ 60,965	$ -	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	82,022	74,827	62,852	60,965	-	-	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 1,356,342	$ 1,247,113	$ 1,047,533	$ 1,016,091	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	6.05%	6.00%	6.00%	6.00%						

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

South Dakota Retirement System
Last 10 Years **

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Authority's proportion of the net pension liability (asset)	0.0639804%	0.0594110%	0.0570954%	0.0543941%	%	%	%	%	%	%
Authority's proportionate share of net pension liability (asset)	$ (5,806)	$ 200,685	$ (242,158)	$ (391,887)	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 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	0.45%	17.76%	23.23%	41.20%						
Plan fiduciary net position as a percentage of the total pension liability (asset)	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

Change of Benefit Terms

Legislation enacted in 2017 modified the SDRS Cost-of-Living Adjustment (COLA). For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) over the prior year, no less than 0.5% and no greater than 3.5%. However, if the Fair Value Funded Ratio (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 exists this year and limits the maximum COLA payable in 2018 to 1.89%.

Notes to Required Supplementary Information (Continued)

Legislation was also enacted in 2017 to:

- Modify the definition of Compensation to clarify included and excluded items,
- Expand the caps on increases in Compensation considered in Final Average Compensation,
- Extend the Final Average Compensation period from the current three years to five years for Foundation Members after a phase-in period, and
- Limit Compensation to the Internal Revenue Code Section 401(a)(17) limits for all Members, regardless of date of entry into SDRS.

Change of Assumptions

As a result of an experience analysis covering the period from July 1, 2011 to June 30, 2016, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2017 Actuarial Valuation. The changes to economic assumptions were very significant, and included reducing the inflation assumption to 2.25%, reducing the investment return assumption to 6.5% and reducing the payroll growth assumption to 3.00%. The demographic assumption changes were less impactful. Among those changes were new mortality assumptions, updated retirement, termination and disability rates and updated salary increase assumptions.

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, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2018.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described as Finding 2017-A in the accompanying schedule of findings and questioned costs to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Finding

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

Purpose of this Report

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

Eide Bailly LLP

Sioux Falls, South Dakota
April 23, 2018

EideBailly
CPAs & BUSINESS ADVISORS

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, 2017. 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, 2017.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Eide Bailly LLP

Sioux Falls, South Dakota
April 23, 2018

Supplemental Information
December 31, 2017 and 2016

Sioux Falls Regional Airport Authority

Grantor/Program Title	Federal CFDA Number	Project Number	Program or Award Amount	Expenditures
Department of Transportation				
Airport Improvement Program	CFDA 20.106	AIP3-46-0050-49	$ 6,150,947	$ 58,532
Airport Improvement Program	CFDA 20.106	AIP3-46-0050-50	7,048,235	5,981,576
Airport Improvement Program	CFDA 20.106	AIP3-46-0050-51	8,227,472	112,701
	Total Federal Financial Assistance		$ 21,426,654	$ 6,152,809

The accompanying notes are an integral part of this schedule.

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). 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Authority received federal awards directly from a federal agency. No federal financial assistance has been provided to a subrecipient.

Note B – Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. The Authority's summary of significant accounting policies is presented in Note 1 in the Authority's basic financial statements.

The Authority has not elected to use the 10% de minimis cost rate.

Expenditures in the amount of $58,532 were expended in the prior fiscal year. These expenditures were approved for payment by the federal agency in 2017 through grant awards or amendments and are included on the schedule of expenditures of federal awards for year ending December 31, 2017.

Note C – Airport Improvement Program

Description of each airport improvement program identified in the Schedule of Expenditures of Federal Awards is as follows:

Project Number AIP-46-0050-49: Runway 3-21 approach end partial reconstruction, taxiway B rehabilitation and reconstruction, runway 3-21 DRS replacement and west GA apron sign installation and updates.

Project Number AIP-46-0050-50: Reconstruct portion of Runway 3-21; rehabilitate taxiways A and A2.

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

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified	No
Significant deficiency identified not considered to be material weakness	None reported
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	No

Identification of major programs:

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

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

Section II – Financial Statement Findings

Finding 2017-A **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

None reported

SIOUX FALLS
REGIONAL AIRPORT

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www.sfairport.com | An equal opportunity employer.

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

Year Ended December 31, 2017

Prepared by Management of
Sioux Falls Regional Airport Authority

Financial Statement Findings

Finding 2016-A

Initial Fiscal Year Finding Occurred: 2009

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

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

Sioux Falls Regional Airport Authority
Corrective Action Plan
April 20, 2017

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, 2017.

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, 2017 – December 31, 2017

The findings from the 2017 schedule of findings and questioned costs are discussed below:

Financial Statement Findings

Finding 2017-A

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, prepared 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 with and agree with the material adjustments proposed during the audit.
Anticipated Completion Date:	Ongoing