The Sioux Falls Regional Airport maintained its position as a major transportation hub for the region in 2018. Passenger enplanements were very strong, but falling short of an eighth consecutive year of record traffic. Passenger enplanements reached 533,614 or 1.5% below the record set in 2017. Total passenger traffic also declined slightly totaling 1,066,314 travelers. The region’s economic growth and competitive air fares have contributed to the strong demand for commercial air service.

2018 saw a slight decline in the amount of air cargo handled decreasing 4.5% for a total of 56 million pounds transported by FedEx and UPS along with 17 million pounds of mail reflecting a 4.0% increase from 2017. A new cargo facility in Fargo diverted some cargo away from Sioux Falls resulting in the decline in cargo.

The Sioux Falls Airport Authority continued efforts to bolster existing commercial service along with development of new non-stop destinations. Discussions were held with all incumbent carriers throughout 2018 on new service to Seattle, Salt Lake, Charlotte, Punta Gorda/Ft. Myers, as well as San Francisco. While no new service was initiated in 2018, Frontier Airlines elected to serve FSD year-round and additional seats were added to Atlanta, Chicago and Denver by year-end which will drive increased traffic in 2019.

The Sioux Falls Regional Airport completed several field projects in 2018 and started a significant terminal project. Phase 2 of our runway 3-21 reconstruction which replaced 4,500 ft of our primary at a cost of $10.8 million was completed in October along with the replacement of security fencing along the west and north perimeter of the airport. Both projects were funded 95% with an FAA grant. Work also began on the expansion of the of the terminal baggage claim area in the summer of 2018. The 14 month project will nearly double the amount of space on the public side for baggage pick-up and will provide for 3 new slope-plate carousel delivery devices. The project cost is approximately $6 million with one third of the project completed by the end of the year.

As I conclude my year as chairman and the final year of my ten years serving as a Commissioner on the Airport Authority Board, I want to thank my fellow Commissioners, Julie Schnaible, Dave Nelson, Lon Stroschein and Raquel Blount for all their council and support. I would also like to thank Dan Letellier, Richard King and Kristin Elgersma and our great service and field staff for all of their help this past year.

As I look back on the last ten years I’m proud to have been involved in many outstanding accomplishments and developments at Joe Foss Field. Significant improvements totaling over $40 million have been invested in terminal facilities which provide an enhanced level of comfort for our growing passenger traffic. New air service to multiple destinations has generated a 60% increase in enplanements over the past ten years with more airline competition and lower air fares. Investment in our airport infrastructure has resulted in the reconstruction of both of our primary runways, developed a new general aviation facility to foster growth and competition for general aviation users along with improvements in parking and rental car facilities.

I sincerely appreciate the opportunity to service as Commissioner and wish everyone at the airport success in the future. Thank You.

Sincerely,

Mike Luce

Mike Luce, Chairman
Sioux Falls Regional Airport Authority
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Mike Luce, Chairman
Sioux Falls Regional Airport Authority
Construction Projects

Baggage Claim Expansion

Reconstruction of Runway 3/21 – Phase 2

Perimeter Fence Replacement
Construction Projects

Flight Activity

Baggage Claim Expansion

Reconstruction of Runway 3/21 – Phase 2

Perimeter Fence Replacement
### Operations Summary

#### Passenger Enplanements

- **2013:** 482,645
- **2014:** 487,127
- **2015:** 490,448
- **2016:** 510,487
- **2017:** 541,589
- **2018:** 533,614

#### Freight Activity

- **2012:** 28,717
- **2013:** 29,582
- **2014:** 30,090
- **2015:** 27,780
- **2016:** 27,776
- **2017:** 29,224
- **2018:** 27,895
The following tables show the significant changes that have taken place over the past three fiscal years ended December 31, 2016, 2017 and 2018.
The following tables show the significant changes in the Statement of Revenues, Expenses, and Net Position for the fiscal years ended December 31, 2018 and 2017. These changes include both the increase and decrease in revenues, expenses, and net position and a healthy economy. As we look forward to 2019, the Authority remains hopeful that passenger traffic will hold steady throughout the year with slight growth of 0.5%.

### SiouxFalls Regional Airport Authority - Statements of Net Position

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net position</td>
<td>$15,311,148</td>
<td>$12,900,973</td>
<td>$2,410,175</td>
<td>17.2%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$15,311,148</td>
<td>$12,900,973</td>
<td>$2,410,175</td>
<td>17.2%</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>$24,109,024</td>
<td>$20,347,858</td>
<td>$3,761,166</td>
<td>18.5%</td>
</tr>
<tr>
<td>Accrued revenues</td>
<td>$2,540,000</td>
<td>$2,200,000</td>
<td>$340,000</td>
<td>15.5%</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>
|8.6%]

### SiouxFalls Regional Airport Authority - Statements of Cash Flows

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net position</td>
<td>$15,311,148</td>
<td>$13,431,185</td>
<td>$1,879,963</td>
<td>13.9%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$15,311,148</td>
<td>$13,431,185</td>
<td>$1,879,963</td>
<td>13.9%</td>
</tr>
<tr>
<td>Operating Activities</td>
<td>$1,880,832</td>
<td>$1,902,004</td>
<td>$21,172</td>
<td>1.1%</td>
</tr>
<tr>
<td>Change in Net Position Before Capital Contributions</td>
<td>$1,880,832</td>
<td>$1,902,004</td>
<td>$21,172</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

### Management's Discussion and Analysis

The following tables show the significant changes in the Statement of Revenues, Expenses, and Net Position for the fiscal years ended December 31, 2018 and 2017. These changes include both the increase and decrease in revenues, expenses, and net position and a healthy economy. As we look forward to 2019, the Authority remains hopeful that passenger traffic will hold steady throughout the year with slight growth of 0.5%.
Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

The Sioux Falls Regional Airport Authority (the "Authority") was created June 10, 1988, pursuant to South Dakota State law, to operate 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, 1991, 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 enterprise-type fund.

The following discussion involves certain critical accounting estimates and judgments that require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income or loss, and changes in net position, and a statement of cash flows. The Authority\'s policies are designed to use the best information available in making these estimates and judgments. However, because these estimates are based on the best available information, actual amounts could differ. While management believes that its practices are in accordance with GAAP, any changes in accounting estimates and policies may have a material effect on results of operations when that determination is made. As December 31, 2018 and 2017, all accounts were considered collectible and therefore an allowance for doubtful accounts is not provided.

Inventories

Inventories are recorded 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 certificates of deposits. Investments are valued at their fair value on the statement 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, building, and equipment over $1,000. Maintenance and repairs are charged to operating expenses as incurred. Depreciation is computed on the straight-line method over the following estimated useful lives:

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

Accrued Absence and Sick Leave

Annual leave is earned by the employees based on years of service. Generally, employees earn two weeks for each five years of service, 15 days for ten to twenty years, and one day per year thereafter for a maximum of twenty-five days. The vacation year is a calendar year and begins 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 25 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 fees are fixed or determinable and collectability is reasonably assured. All other revenue is considered non-operating revenue.

Air Flight Property Taxes

Air flight property taxes are assessed by the State of South Dakota and certified to the respective County Auditor or on or before the Fourth Monday in August of each year. The air flight taxes are due and payable on or before the following dates at which time the tax shall be considered delinquent:

- County and city clerk: due at the date of retirement or death.

Federal and State Grants

The Sioux Falls Regional Airport Authority receives federal financial assistance from the U.S. Department of Transportation, the United States Forest Service, the South Dakota Department of Transportation, and local governments. These funds are provided to finance capital improvements and are not intended for current financial operations. Accordingly, the federal and state grants funds are recorded as capital contributions.

Passenger Facility Charges

The Authority has received approval from the Federal Aviation Administration (FAA) to impose a passenger facility charge (PFC) up to $5.50 for each passenger boarding a flight 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 Circular of Federal Regulations (CFR) 108.13. PFC proceeds are accounted as non-operating revenues.

Customer Facility Charges

During 2018 the Authority began assessing a customer facility charge (CFC) in rental car commissionaires. Current charges are $10.00 per day with a limit of 14 days. The proceeds from the CFC\'s are restricted for use in rental car facilities construction projects. CFC proceeds are accounted as non-operating revenues.

Income Taxes

On June 10, 1988, the Authority entered into a taxing agreement with the Sioux Falls Regional Airport Authority.
Note 2 - Bank Deposits and Investments

The Authority's deposits are made and held in qualified public depositories. In South Dakota, qualified depositories are those depositories that are insured by the Federal Deposit Insurance Corporation and are approved by the Office of the State Auditor. For purposes of extending the credit risk in the risk limit, in the event of a bankruptcy failure, the Authority will no longer be able to recover deposits. Authority exposure in excess of deposit insurance must be 100 percent collateralized. As of 2017, $19,152,409 of the Authority’s bank balance of $21,052,409 was pledged to collateralize credit risk as follows:

Unsecured and collateral held by pledging bank .......................................................... $16,885,810
Unsecured and collateral held by the pledging bank’s trust department not in the Authority’s name .......................................................... 260,589
$17,146,399

Concentration of Credit Risk - The risk of loss associated with the concentration of a single issuer. The Authority does not have a policy regarding the concentration of credit risk.

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 other observable data either directly or indirectly, which may include inputs that are not directly observable.
Level 3 - Investments reflect prices based upon unsound circumstances.

Fair first Bank in Sioux Falls uses a pricing service to value investments. This service uses market approaches pricing which utilizes models and pricing as well as mathematical basis and pricing analysis 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 certificate of deposit is uncollateralized as level 2.

The fair value of investments at December 31, 2018 and 2017 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value</td>
<td>Fair Value</td>
</tr>
<tr>
<td></td>
<td>December 31, 2018</td>
<td>December 31, 2017</td>
</tr>
<tr>
<td>Certifica</td>
<td>$2,047,927</td>
<td>$2,087,927</td>
</tr>
</tbody>
</table>
Administrative Office
2801 Jaycee Lane
Sioux Falls, South Dakota
(605) 336-0762

Website: www.sfairport.com
Email: airport@sfairport.com

Daniel J. Letellier, Executive Director
Richard W. King, Deputy Director