

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
Year Ended June 30, 2015



**GALLATIN AIRPORT AUTHORITY**  
Belgrade, Montana



# 2015

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2015

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**GALLATIN AIRPORT AUTHORITY**

Belgrade, Montana

Prepared by: Department of Finance and Administration

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GALLATIN AIRPORT AUTHORITY

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# INTRODUCTORY SECTION



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GALLATIN AIRPORT AUTHORITY

BOARD OF COMMISSIONERS AND SENIOR STAFF

**BOARD OF COMMISSIONERS**

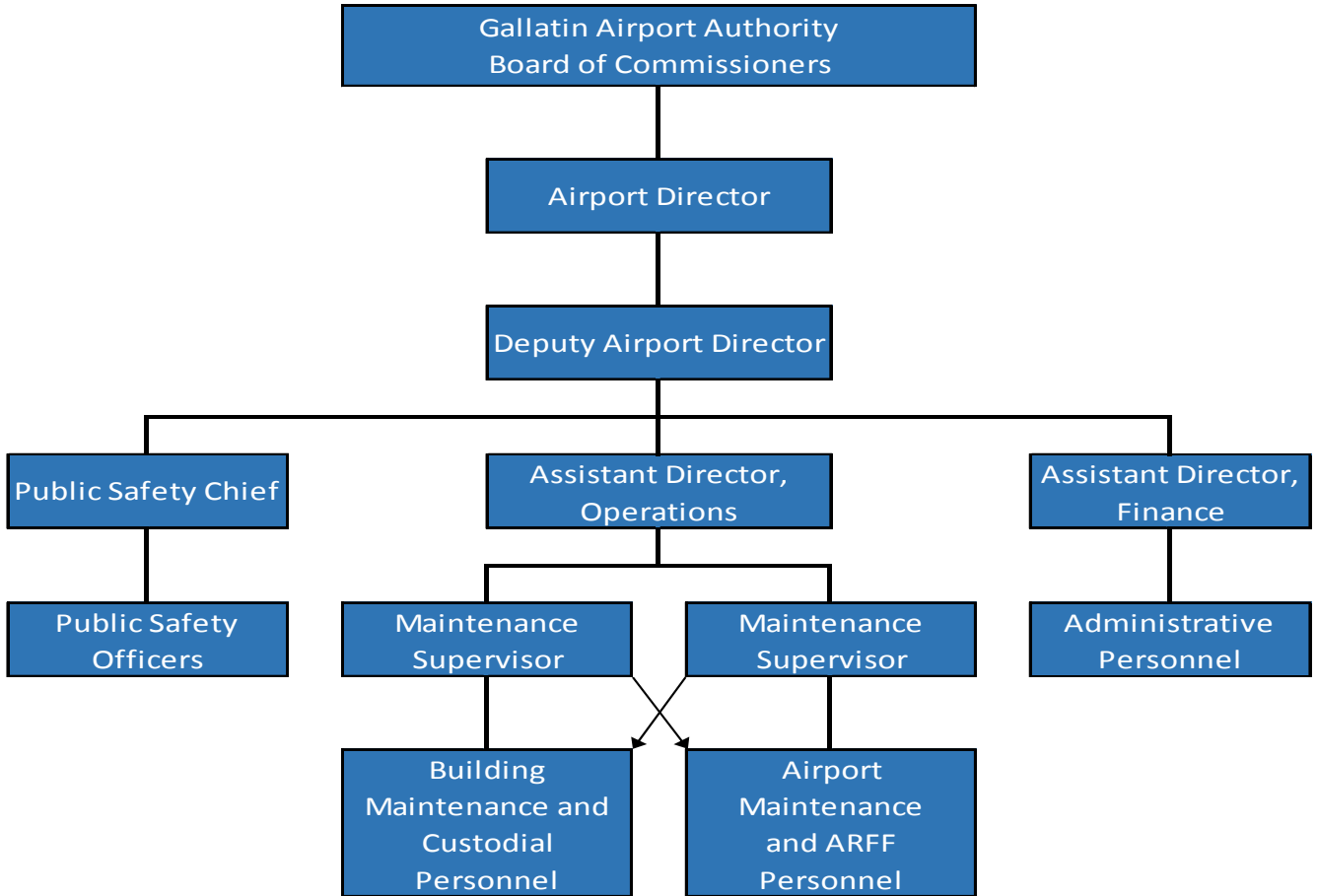
Kevin Kelleher ..... Chair  
Ted Mathis ..... Vice Chair  
Carl Lehrkind, IV ..... Secretary  
Kendall Switzer ..... Member  
Karen Stelmak ..... Member

**SENIOR STAFF**

Brian Sprenger, A.A.E. .... Airport Director  
Scott Humphrey, A.A.E. .... Deputy Airport Director  
Paul Schneider, C.M. .... Assistant Director, Operations  
Bill Dove ..... Public Safety Chief  
Troy Watling, CPA ..... Assistant Director, Finance

GALLATIN AIRPORT AUTHORITY

ORGANIZATIONAL CHART



## **LETTER OF TRANSMITTAL**

November 16, 2015

### **To the members of the Board:**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Gallatin Airport Authority (Authority), for the year ended June 30, 2015.

Responsibility for the accuracy of the reported data, for its completeness, and for the fairness of its presentation, rests with the Authority's management. To the best of our knowledge and belief, the enclosed information is accurate and complete in all material respects and reported in a manner designed to present fairly the financial position, changes in net position, and cash flows in accordance with Generally Accepted Accounting Principles (GAAP).

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### **PROFILE OF THE AUTHORITY**

The Gallatin Airport Authority is a public body, corporate and politic, established to own and operate the Bozeman Yellowstone International Airport (BZN). The Authority was created on November 22, 1972 by resolution of the Board of Commissioners of Gallatin County, Montana.

The Authority is governed by a five-member Board appointed by the Gallatin County Commissioners to serve five-year terms. The Board is given broad powers to plan, establish, acquire, develop, construct, enlarge, improve, maintain, equip, operate and regulate the Bozeman Yellowstone International Airport. The Gallatin Airport Authority Board has established the following mission:

The function of the Gallatin Airport Authority is to plan for, provide, operate and safely maintain an aviation facility adequate to the needs of the flying public and to keep it self-sustaining.

The Authority has been 100% self-sustaining for over 25 years and has not utilized any local tax funds during this period. While the Authority operates 100% on user fees, the businesses serving BZN contribute nearly \$1 million in local taxes for Gallatin County, Belgrade Schools and the Central Valley Fire District.

You may refer to note 1 in the notes to the financial statements for more information regarding the profile of the Authority.

## ECONOMIC CONDITIONS AND OUTLOOK

### *State of the Industry*

The International Air Transport Association (IATA) raised their forecast for calendar year 2015 industry profits by more than 17% to \$29.3 billion, almost doubling last year and heralding a boom for North America airlines that stand to reap half the worldwide profits. The four major airlines, American, Delta, Southwest, and United reported annual combined operating profits as of June 30, 2015 of \$19.1 billion dollars with net profits of \$12.4 billion. Smaller airlines, Alaska, JetBlue and Virgin America reported combined operating profits of \$2.18 billion with net profits of \$1.3 billion. Low Cost Carriers (LCCs) Spirit and Allegiant reported combined operating profits of \$1.7 billion with net profits of \$407 million (Frontier Airlines is privately held and does not report).

Robust profits are driven by three factors: lower fuel costs, capacity discipline and maximizing return on investment. According to the Bureau of Transportation Statistics (BTS) as of June, 2015, the average cost of Jet A was \$2.04 per-gallon vs. \$2.97 per-gallon one year ago. Major airlines are not in an expansion mode adding just 4.7% additional seats in the U.S. domestic market this past year on 1.4% more departures. Accordingly, load factors remain high averaging 86% in the June 2015 quarter.

Passenger volume and market share have become secondary to the revenues each seat contributes to an airline's overall system. Airline strategies are not to add passenger volume, rather airlines are focusing on higher yield routes and incremental revenues through fees and upselling the product. Additionally, outsourced flying is being brought back in-house by major airlines as 50 and 66-seat jets operated by regional partners are no longer revenue or cost effective. Feed from smaller airports is costly and those communities that cannot support larger aircraft (76-seats or more) will see a reduction in frequency and or loss of service.

### *State of the Community*

Southwest Montana continues to see strong economic growth. Bozeman and Gallatin County continue to be the fastest growing city and county (populations over 10,000) in the state, while unemployment has continued to decrease to 2.2% in September 2015. Montana State University has seen significant enrollment growth with 2,530 more students in 2015 vs. 2010. In addition, both summer and winter tourism have seen strong growth with Big Sky skier visits growing 47% over the past 5 years and Yellowstone National Park visitation through September 2015 surpassing all previous full year visitation.

	<u>FY 2015</u>	<u>FY 2010</u>	<u>Change</u>
BZN total passengers	997,641	686,719	45%
Big Sky skier visits	440,000	300,000	47%
Yellowstone visits (calendar year) *	3,800,000	3,640,205	4%
Montana State University enrollment	15,294	12,764	20%
Bozeman population	41,660	37,284	12%
Bozeman unemployment rate	2.2%	6.5%	-66%
Gallatin County population	97,308	89,599	9%

\* Yellowstone FY 2015 visits reflects January through September 2015 activity

## AIRPORT HIGHLIGHTS – FISCAL YEAR 2015

For the year, BZN handled just under 1 million (997,641) total passengers maintaining its status as Montana’s busiest airport for the second consecutive year. For comparison, Billings is the second busiest airport in Montana at 842,996 passengers for FY 2015. BZN ended FY 2015 as the 118th busiest airport in the nation, and 8th busiest in the Northwest Region which includes Colorado, Utah, Wyoming, Montana, Idaho, Oregon and Washington. This compares to 120th busiest in the nation and 9th busiest in the Northwest Region at the end of FY 2014.

Tourism and locally generated traffic contributed nearly equally to the overall increase in passengers. Alaska Airlines’ third daily flight to Seattle, the return of Delta mainline service to Salt Lake City, and additional seasonal service to existing destinations on United and Delta, accounted for the majority of the increase. Frontier Airlines changed their business model in January with substantially reduced connecting opportunities, and this is expected to diminish Frontier’s impact in the market in the future. The strong local economy and continued tourism demand are expected to continue the growth trend through the next year.

### *Air Service*

BZN currently has year round non-stop service to Seattle/Tacoma (Delta/Alaska), Las Vegas (Allegiant), Phoenix-Mesa (Allegiant), Salt Lake City (Delta), Denver (United – year round, Frontier – seasonal), and Minneapolis/St Paul (Delta). BZN also has seasonal non-stop service to Portland (Alaska), San Francisco (United), Los Angeles (Delta/United), Houston (United), Chicago (United), New York-LaGuardia (Delta), New York/Newark (United) and Atlanta (Delta).



The following table shows major air traffic activities during the fiscal years ended June 30, 2015 and 2014.

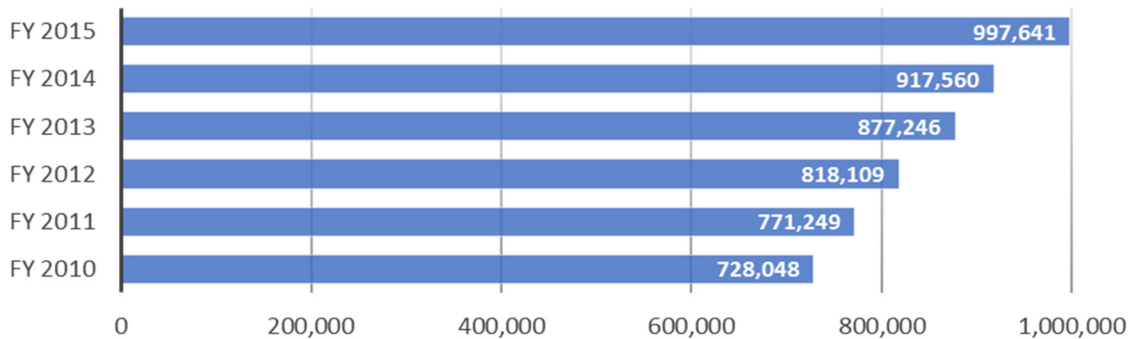
	2015	2014	Change
Total enplaned and deplaned passengers	997,641	917,560	8.7%
Enplaned passengers	499,977	457,716	9.2%
Deplaned passengers	497,664	459,844	8.2%
Aircraft operations	79,732	78,482	1.6%
Available departing seats	602,683	525,794	14.6%
Load factor	82.7%	86.8%	-4.7%

**AIRPORT HIGHLIGHTS – FISCAL YEAR 2015 (continued)**

*Passenger Traffic*

FY 2015 passenger traffic at BZN increased 8.7% to 997,641 passengers. Available seats increased 12.1% due to a combination of increased flight activity and increased average seats per aircraft. Load factor for FY2015 was 83.2%. Weekly average departures increased 3.6% from 120 in FY 2014 to 124 in FY 2015. Average seats per aircraft increased 5.4% from 73 in FY 2014 to 77 in FY 2015. Alaska Airlines had the largest traffic increase (32.2%) with Delta (7.7%) and United (6.6%) also increasing significantly. Frontier’s increase was 2.5% but this increase was achieved at the beginning of the year before their business model changed to primarily serving origin and destination traffic only to Denver in January. Allegiant traffic was down a modest 1.4%.

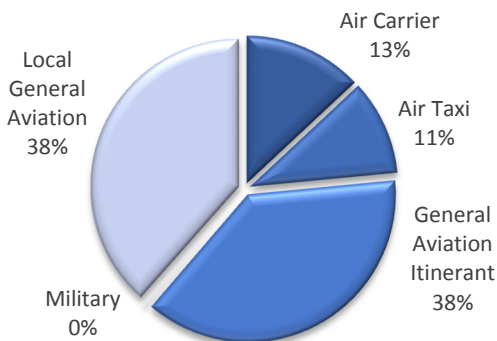
**Total Passengers**



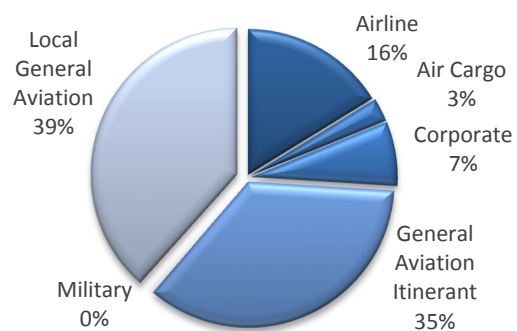
*Tower Operations*

Tower operations (landing or takeoff) increased 1.6% during FY 2015. The shift from regional jet traffic to mainline traffic resulted in a shift from Air Taxi operations (down 11.8%) to Air Carrier operations (up 20.2%). General Aviation Itinerant operations were up 6.9%. Military operations declined 30.2% which is only 95 total operations due to the minimal military use of BZN. Overall Itinerant operations (Air Carrier, Air Taxi, General Aviation Itinerant and Military) were up 5.3%. BZN further clarifies Itinerant activity to Airline, Cargo, Corporate and General Aviation Itinerant. Local general aviation operations were down 3.9%. While the overall increase in operations was only 1.6%, BZN continued to see peak day operations of over 500 and peak hour operations that exceeded 70. These peak periods in addition to the mix of aircraft and varying approach speeds results in many periods where BZN is operating at capacity. Consequently, BZN is currently performing an environmental analysis for a parallel paved runway to separate slower piston powered aircraft from the faster jet aircraft, in addition to separating Instrument Flight Rules aircraft from Visual Flight Rules aircraft during peak periods.

**Tower Operations FAA Methodology**



**Tower Operations BZN Methodology**



## AIRPORT HIGHLIGHTS – FISCAL YEAR 2015 (continued)

### *Screening Partnership Program*

On September 1, 2014, BZN began the transition from federalized passenger and baggage screening to privatized passenger and baggage screening through the Screening Partnership Program. This transition was the culmination of the Gallatin Airport Authority Board applying to opt out of the federal program at the June 2012 Airport Board meeting. While the Airport Authority submitted the application, the process, management and regulatory oversight is under the jurisdiction of the Transportation Security Administration.

### *Cargo*

Cargo revenues consists of landing fees from FedEx, UPS and the airlines, and ground rent paid by cargo operators for their facilities. Total cargo, express and air mail increased 2.8% to 4,806,020 lbs. in FY 2015. In FY 2015, FedEx moved 1,995,500 lbs. of cargo by air and transferred 1,443,500 lbs. by truck at its airport facility.

	<u>FY 2015 Lbs.</u> <u>Lbs. Moved</u>	<u>Change</u> <u>From FY 2014</u>
FedEx	3,439,000	1.0%
UPS	1,018,513	8.3%
Airlines	348,507	5.8%

### *General Aviation*

General Aviation activity remained steady at BZN with total operations up 1.2% during the fiscal year from 60,071 in FY 2014 to 60,788 in FY 2015. General Aviation operations account for approximately 76% of all airport tower operations. Corporate landings (aircraft 12,500 lbs and above) were flat at 2,848 for the year compared to 2,849 the previous year. The Gallatin College continues to grow at BZN with Summit Aviation now operating 14 aircraft in conjunction with the aviation program.

### *Fuel Flowage*

Total Fuel flowage during the year increased 5.5% from 7,158,095 gallons in FY 2014 to 7,553,987 gallons in FY 2015. Of this total, Jet A (airline) fuel flowage increased 4.8% from 5,095,950 gallons to 5,338,981 gallons, Jet (non-airline) fuel flowage increased 8.1% from 1,922,519 gallons to 2,078,316 gallons but AvGas decreased 2% from 139,626 gallons to 136,880 gallons.

### *General Aviation Hangar Development*

The Gallatin Airport Authority approved construction of three commercial hangars on the east ramp and one non-commercial hangar on taxi-lane "U" during the fiscal year.

### *Customs and Border Protection*

The United States Customs and Border Protection facility in BZN handled 124 international arrivals during FY 2015, up 3.3% over FY 2014. Unlike locations at Helena, Great Falls and Kalispell, this location is operated as a user fee facility with approximately 80% of the operating cost paid for by the international arriving aircraft and the remaining 20% split three ways between the Gallatin Airport Authority, the Yellowstone Club and Signature Flight Support.

**AIRPORT HIGHLIGHTS – FISCAL YEAR 2015 (continued)**

*Land Acquisition*

The Gallatin Airport Authority acquired two parcels of land during the fiscal year. The first parcel was 180 acres located east of the airport on Frontage Road, and includes approximately 59 acres inside the 65 DNL noise contour. The second parcel was 10 acres located north of the airport and allows for future road realignment that could be necessary for an extension of runway 03/21.

*Requests for Proposals (RFP)*

Food, Beverage and Gift Concession - A request for proposals was issued for food, beverage and gift concessions and an agreement was awarded to existing concessionaire, Sharbert Enterprises, for a period of seven years beginning June 2015. As part of the RFP, the Airport Authority contributed \$300,000 toward the construction on a second food and beverage concession inside security. Construction of this facility began in May 2015 and was completed in August 2015.

Insurance Brokerage Services - A request for proposals was issued for insurance brokerage services and an agreement was awarded to Payne West for a period of up to five years beginning August 2015.

*Financial*

Financially, the Authority depends on our passengers with over 90% of the Authority's operating revenues generated from the businesses that utilize the airline terminal building through rents and concession fees. However, we are dependent upon the airlines providing seats into our market and we compete with every airport in the country for those seats. While the market is the primary driver of airline decisions, there is one factor that we control, the airline cost of using our airport. Consequently, it is our philosophy that by maintaining one of the lowest airline costs per passenger in the industry, we help make our market more profitable which in turn makes us more likely to attract additional airline seats.

The Authority has diligently controlled the costs passed on to the airlines through strict cost controls, a highly professional and cross utilized staff, and a fiscally conservative capital improvement program. As a result, airline cost per enplanement to operate at BZN this year declined 4.5% from \$3.05 to \$2.93.

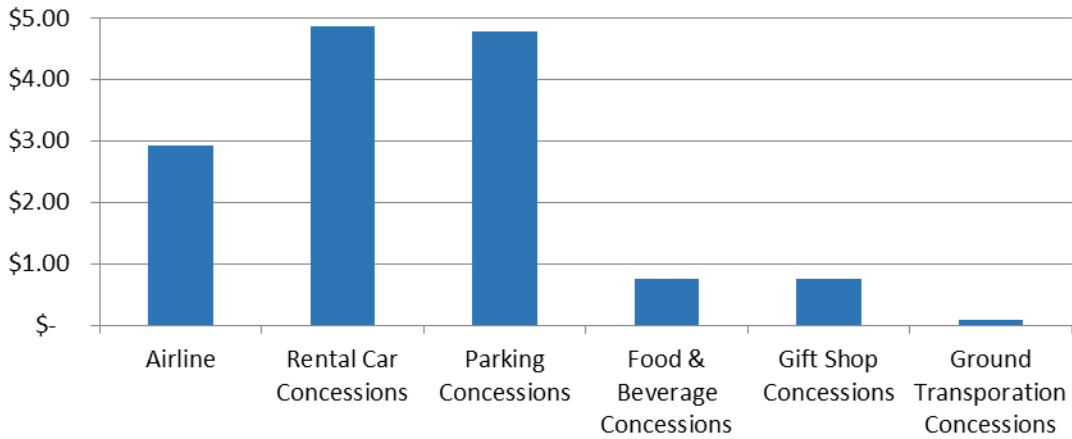
	<u>FY 2015</u>	<u>FY 2014</u>
Airline cost	\$1,458,820	\$1,390,335
Enplanements scheduled	<u>498,363</u>	<u>456,436</u>
Cost per enplaned passenger	\$ 2.93	\$ 3.05

Airline and Concession revenues are variable dependent upon passenger enplanements. These revenues increased from \$14.12/enplanement in FY 2014 to \$14.17/enplanement in FY 2015. Airline revenues account for \$2.93/enplanement or 20.6%; rental car and parking concessions account for \$9.64/enplanement or 68.1%; food, beverage and gift concessions account for \$1.51/enplanement or 10.7%; and ground transportation accounts for \$.09/enplanement or .6%. In FY 2015, enplanements of 499,977 generated airline and concession revenues of \$7,084,674; this compares to FY 2014 with 457,716 enplanements generating \$6,462,949.



**AIRPORT HIGHLIGHTS – FISCAL YEAR 2015 (continued)**

**FY 2015 Airline and Concession Revenue  
Per Enplaned Passenger**



**CAPITAL AND LONG-TERM PLANNING**

The Gallatin Airport Authority has a comprehensive 11-year Capital Improvement Plan. This plan is designed to accommodate the future capital needs of BZN within the financial capability of the Authority. Projects in the first five years of the plan are more defined with the projects in the later six years more fluid due to future unknowns. Over the next five years, the Gallatin Airport Authority expects to spend approximately \$45 million in capital improvements. A description of the major projects planned for FY 2015 through FY 2019 follows.

*East Belgrade Interchange - FY 2014/15*

After more than a decade of planning and nearly two years of construction, the East Belgrade Interchange was dedicated on June 26, 2015. The \$33 million dollar project (\$3 million plus land easements and the cost of the environmental assessment of \$300,000 were contributed by the Gallatin Airport Authority) was completed nearly \$9 million dollars under the original budget and almost six months ahead of schedule. In addition to the direct contribution to the Interchange project, the Gallatin Airport Authority also completed \$4.6 million in associated road improvement projects including connecting to the terminal loop road system, extension of the new Gallatin Field Road and Airway Boulevard to Dry Creek Road. The connections to the airline terminal loop road were Airport Improvement Program (AIP) fundable.

	<u>Project Cost</u>	<u>Authority</u>	<u>Federal/State</u>	<u>County/City</u>	<u>AIP</u>
Interchange Project	\$33,000,000	\$3,300,000	\$25,700,000	\$4,000,000	
Airport roads	\$4,644,608	\$3,057,099			\$1,587,509

*Terminal Deicing Expansion/East Ramp Expansion - FY 2015/16*

Continued corporate general aviation growth and large hangar requests has necessitated expansion of the east ramp. In addition, changes in deicing requirements, procedures and the need to access gates after aircraft have been pushed back for deicing now require additional ramp for deicing and include containment facilities. The overall cost of both projects is \$3,694,669 and is AIP fundable.

<u>Project Cost</u>	<u>Authority</u>	<u>AIP Entitlements</u>
\$3,731,989	\$373,199	\$3,358,790

**CAPITAL AND LONG-TERM PLANNING** (continued)

*Paved Runway 11/29 - FY 2016/17*

An Environmental Analysis is currently being completed for the construction of a new 5,000' x 75' paved runway essentially parallel to our main runway. Runway 11/29 is proposed to be constructed to B-II small aircraft standards. It will serve the slower, small Aircraft Approach Category A and B aircraft and gliders with an Airplane Design Group (ADG) II category and smaller. Small aircraft are those identified as having a maximum certificated takeoff weight of 12,000 pounds or less. Aircraft larger and faster aircraft than B-II small will continue to utilize the main runway 12/30. The new runway will provide separation of smaller and slower aircraft on runway 11/29 and faster and larger aircraft on main runway 12/30 increasing safety and efficiency of air traffic control at BZN. The overall cost of paved runway 11/29 including associated connection taxiways and a parallel taxiway is estimated at \$7,931,153 with AIP reimbursement funding spread over the FY 2016 – FY 2019 period.

<u>Project Cost</u>	<u>Authority</u>	<u>AIP Entitlements</u>
\$7,931,153	\$793,116	\$7,138,037

*Main Taxiway & Runway 3/21 Pavement Rehabilitation - FY 2016/17 – FY 2017/18*

The main taxiway system and crosswind runway 3/21 were last rehabilitated in 2001. In order to maintain pavement condition, we will rehabilitate these surfaces in FY 2016 and FY 2017 with AIP reimbursement spread over the two fiscal years. The estimated cost of this project is \$6,228,133. We anticipate funding for this project will include FAA Discretionary Funding as this is a high priority project.

<u>Project Cost</u>	<u>Authority</u>	<u>AIP Entitlements</u>	<u>AIP Discretionary</u>
\$6,228,133	\$622,813	\$1,405,320	\$4,200,000

*Multi-use parking garage - FY 2017/18 – FY 2018/19*

The Authority is in the beginning stages of planning for and designing a multi-use parking garage for rental cars and pay parking. Construction is anticipated to begin late summer 2017. It is anticipated that approximately 75% of the parking garage will be for rental cars and the remaining 25% for pay parking. The rental car portion will be reimbursed through Customer Facility Charges (CFC) estimated at \$3.00 per rental car day on rental car contracts. The pay parking portion will be funded by the Authority.

<u>Project Cost</u>	<u>Authority</u>	<u>CFC</u>
\$16,000,000	\$4,000,000	\$12,000,000

*Main Runway 12/30 Pavement Rehabilitation - FY 2018/19*

Runway 12/30 was last rehabilitated in 2003. In order to maintain pavement condition, we plan to rehabilitate the main runway in FY 2018. The estimated cost of this project is \$5,729,998. We anticipate funding for this project will include FAA Discretionary Funding as this is a high priority project.

<u>Project Cost</u>	<u>Authority</u>	<u>AIP Entitlements</u>	<u>AIP Discretionary</u>
\$5,729,998	\$573,000	\$3,036,998	\$2,120,000

## OTHER INFORMATION

### *Independent Audit*

For the fiscal year ended June 30, 2015, the annual financial statements of the Authority have been audited by Holmes & Turner, PC, a firm of independent Certified Public Accountants. As part of the annual audit, the auditors perform procedures in accordance with the Single Audit Act, OMB Circular A-133 and the provisions of grant agreements. The auditors also perform procedures to help ensure the Authority's compliance with FAA regulations related to the Passenger Facility Charge program.

The independent auditor's report on the financial statements is included in the financial section of this report and the reports relating to the single audit and the passenger facility charge program are located in the compliance section.

### *Internal Controls*

The Authority is responsible for establishing and maintaining internal accounting controls designed to ensure that its assets are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for preparations of financial statements in conformity with GAAP. Internal controls are designed to provide reasonable, rather than absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from the control and that the control, and the evaluation of costs and benefits require estimates and judgements by management.

As a recipient of federal and state financial assistance, the Authority is also responsible for ensuring that adequate internal controls are in place for documenting compliance with applicable laws and regulations related to these programs. The internal controls are subject to periodic evaluation by management and external independent auditors.

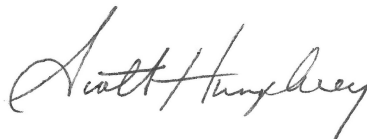
## ACKNOWLEDGEMENTS

Success in any organization is dependent upon people. We are fortunate to have a dedicated and knowledgeable Authority Board that understands the business of airports. We also have an exceptional staff of 31 experienced and customer friendly professionals that keep the airport in top condition, financially sound and prepared for any challenge. We are proud to serve the flying public and hope that this report will provide valuable information on the status of your airport. We welcome and value your input on how we can better serve you at Bozeman Yellowstone International Airport.

Respectfully submitted,



Brian Sprenger, A.A.E.  
Airport Director



Scott Humphrey, A.A.E.  
Deputy Airport Director



Troy Watling, CPA  
Assistant Director, Finance

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# FINANCIAL SECTION



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Gallatin Airport Authority  
Belgrade, Montana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Gallatin Airport Authority (Authority), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***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 audit. We conducted our audit 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 financial position of Gallatin Airport Authority as of June 30, 2015 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting standards 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 and pension schedules on pages 19-27 and 53, respectively, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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 that collectively comprise the Gallatin Airport Authority's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of passenger facility charges collected and expended is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards and schedule of passenger facility charges collected and expended are the responsibility of management and were 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of expenditures of federal awards and schedule of passenger facility charges collected and expended are fairly stated in all material respects in relation to the basic financial statements as a whole.



November 16, 2015  
Gallatin Airport Authority  
Page three

*Other information (continued)*

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of Gallatin Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Gallatin Airport Authority's internal control over financial reporting and compliance.

*Holmes & Turner*

November 16, 2015

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GALLATIN AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015

The following discussion and analysis provides an overview of the Gallatin Airport Authority's (the Authority) financial statements for the fiscal year ended June 30, 2015 with selected comparative information for the fiscal year ended June 30, 2014. This discussion and analysis has been prepared by management and should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

*OVERVIEW OF THE FINANCIAL STATEMENTS*

The Authority is structured as an enterprise fund and the financial statements are prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and expense are recognized when incurred. Capital assets are capitalized and depreciated, except for land and assets held for future use, over their useful lives. See the notes to the financial statements for a summary of the Authority's significant accounting practices and policies.

The Authority's basic financial statements includes three statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The *Statement of Net Position* presents information on the Authority's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Total net position serves as a useful indicator of the Authority's financial position and is a measurement of the financial condition of the Authority at a specific point in time.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information related to revenue and expense activity. The difference between revenues and expenses will either increase or decrease total net position. The resulting ending net position balance is reflected on the Statement of Net Position. The change in net position serves as a useful indicator of whether the overall financial condition of the Authority has improved or declined during the year.

The *Statement of Cash Flows* presents information related to the flows of cash and cash equivalents. Consequently, only transactions that affect the Airport's cash and cash equivalent accounts are recorded in this statement. A reconciliation follows this statement to assist in the understanding of the difference between cash flows from operating activities and operating income.

The basic financial statements also include notes to the financial statements that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by required supplementary information and statistical schedules that further explain and support the information in the basic financial statements.

The fiscal year 2014 (FY 2014) balances presented in the following discussion and analysis and the statistical schedules have not been restated for the effects of changes relating to GASB 68 implemented in fiscal year 2015. In addition, certain fiscal year 2014 balances have been reclassified to conform to the fiscal year 2015 (FY 2015) presentation.

GALLATIN AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015

*FINANCIAL HIGHLIGHTS*

**Statement of Net Position**

The following table represents a condensed summary of the Authority's statement of net position at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Current and restricted assets	\$ 24,095,118	\$ 21,143,915
Capital assets	<u>85,780,781</u>	<u>85,704,825</u>
Total assets	<u>109,875,899</u>	<u>106,848,740</u>
Deferred outflows of resources	<u>170,556</u>	<u>-</u>
Current liabilities	1,471,323	2,346,983
Long-term liabilities	<u>15,695,531</u>	<u>14,485,000</u>
Total liabilities	<u>17,166,854</u>	<u>16,831,983</u>
Deferred inflows of resources	<u>451,074</u>	<u>-</u>
Net investment in capital assets	71,295,781	70,699,825
Restricted	3,823,843	3,889,792
Unrestricted	<u>17,308,903</u>	<u>15,427,140</u>
Total net position	<u>\$ 92,428,527</u>	<u>\$ 90,016,757</u>

Total assets were up by 14.0% from FY 2014 to FY 2015. Current and restricted assets rose by 14.0% mainly due to the increase in cash and cash equivalents. Capital assets increased by 0.1% with the FY 2015 capital additions offset by depreciation.

Current liabilities decreased by 37.3% from FY 2014 to FY 2015. The decrease was primarily the result of fewer construction payables at the end of FY 2015.

Long-term liabilities increased by 8.4% from FY 2014 to FY 2015. The increase is due to the recording of net pension liability of \$1,745,531 as part of the GASB 68 implementation in FY 2015.

The implementation of GASB 68 in FY 2015 required the recording of deferred outflows of resources, net pension liability, and deferred inflows of resources related to the Authority's defined benefit retirement plan. The implementation also required an adjustment to beginning FY 2015 net position of \$2,104,843. You may refer to notes 8 and 18 in the notes to the financial statements for details.

Total net position improved by 2.7% from FY 2014 to FY 2015. A summary of the changes in net position follows.

GALLATIN AIRPORT AUTHORITY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 YEAR ENDED JUNE 30, 2015

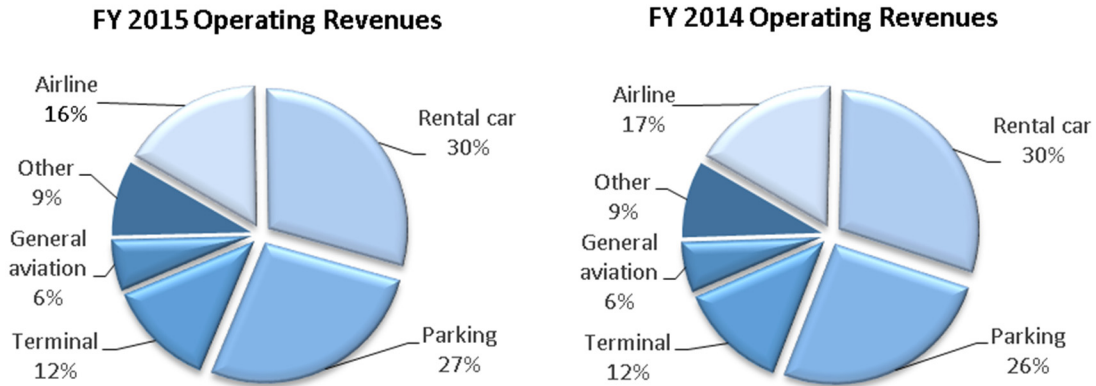
**Statement of Revenues, Expenses and Changes in Net Position**

The following table represents a condensed summary of the statement of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014:

	2015	2014
Operating revenues	\$ 8,918,137	\$ 8,192,195
Operating expenses, excluding depreciation	(4,434,228)	(4,220,875)
Depreciation	(3,847,944)	(3,838,984)
Operating income	635,965	132,336
Net noperation revenues (expenses)	(838,776)	(492,652)
Capital contributions	4,688,111	3,453,594
Change in net position	4,485,300	3,093,278
Net position - beginning (2015 restated)	87,943,227	86,923,479
Net position - ending	\$ 92,428,527	\$ 90,016,757

Operating Revenues

The following charts illustrate the principal revenue sources and their percentage of total operating revenues for the years ended June 30, 2015 and 2014.



GALLATIN AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015

Operating Revenues (continued)

The following table shows the operating revenues for the years ended June 30, 2015 and 2014, and the percentage change.

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Airline	\$ 1,458,820	\$ 1,390,335	4.9%
Rental car	2,623,508	2,416,367	8.6%
Parking	2,396,074	2,112,716	13.4%
Other terminal	1,109,858	1,030,027	7.8%
General aviation	518,771	482,364	7.5%
Air Cargo	38,740	38,364	1.0%
Other	<u>772,366</u>	<u>722,022</u>	<u>7.0%</u>
	<u>\$ 8,918,137</u>	<u>8,192,195</u>	<u>8.9%</u>

Overall operating revenues rose by 8.9% or \$725,942 from FY 2014 to FY 2015.

Airline revenues rose by 4.9% and consist primarily of landing fees and airline terminal rents. Landing fee revenues increased by 5.8% from \$572,599 to \$605,493. Landing fee rates decreased by 7.0% however air carrier landings increased by 20.2%. Airline terminal rent increased by 4.1% from \$746,266 to \$776,568.

Rental car revenues increased by 8.6% and includes on and off airport concessions fees and rents. The major contributor was on-airport rental car concessions which increased by 8.8% from \$2,268,289 to \$2,468,500. Transaction days (the number of days and vehicle is rented) increased by 10.7% to 428,366 days in FY 2015. The average cost-per-day of an on-airport rental car decreased by 3.6% to \$56.95. On airport rental agencies pay the Authority the greater of a minimum annual guarantee or 10% commission fee plus rent for office space and parking stalls.

Parking revenues were up by 13.4% and consists primarily of parking concessions revenues which increased by 13.6% from \$2,098,346 to \$2,384,549. The Authority had an agreement with Standard Parking to manage parking operations for the Authority through September 2015. The Authority pays a percentage of parking revenues for the management services, which increased 9.2% from \$306,441 to \$334,755. The Authority has contracted with Republic Parking to take over the management of parking operations under a five year agreement beginning October 1, 2015.

Other terminal concessions and rents revenues rose by 7.8% and consists primarily of food, beverage and gift shop concessions fees; advertising; and space rents. The majority of the increase is due to food, beverage, and gift shop concessions, which increased by 11.8% from \$635,432 to \$710,134 due to passenger traffic in the terminal and concession fee rate adjustments. The Authority has contracted with Sharbert Enterprises to operate terminal food, beverage, and gift concessions under a seven year agreement beginning June 1, 2015.

GALLATIN AIRPORT AUTHORITY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 YEAR ENDED JUNE 30, 2015

Operating Revenues (continued)

General aviation revenues increased by 7.5%. General aviation landing fees increased by 14.3% from \$107,575 to \$122,994. Fuel flowage fees increased by 4.2% from \$121,867 to \$127,000. Tie down fees increased by 7.7% from \$31,967 to \$34,423. The growth in these areas can be attributed primarily to increases in general aviation operations.

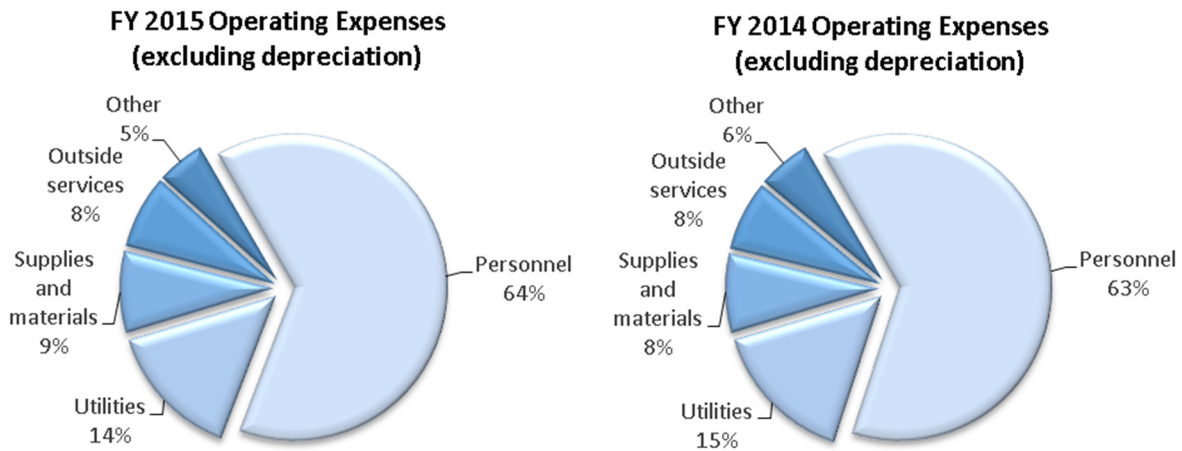
Air cargo revenues were essentially flat with an increase of 1.0%.

Other operating revenues increased by 7.0% and consist of revenues from the consolidated rental car facility, the customs facility, the law enforcement reimbursement program, and other land/building rents. The majority of the increase is due to activity at the consolidated rental car and customs facilities.

- Consolidated rental car facility revenues increased by 7.8% from \$312,873 to \$337,377. The majority of these revenues is from the operating portion of the customer facility charges which totaled \$321,273 and \$298,713 in FY 2015 and FY 2014, respectively. The increase is directly related to the increase in rental car activity.
- Customs facility revenues increased by 8.0% from \$119,538 to \$129,086 and is due to an increase in international landings requiring customs services.

Operating Expenses

The following charts illustrate the principal operating expenses (excluding depreciation) and their percentage of total operating expenses for the years ended June 30, 2015 and 2014.



GALLATIN AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015

Operating Expenses (continued)

Controlling operating cost in any environment is important, but during long periods of growth as we have experienced, it becomes essential in order to ensure the organization does not grow beyond its need. FY 2015 operating expenses (excluding depreciation) increased 5.1% from \$4,220,875 in FY 2014 to \$4,434,228 in FY 2015.

The following table shows the operating expenses for the years ended June 30, 2015 and 2014, and the percentage change.

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Personnel	\$ 2,844,738	\$ 2,681,864	6.1%
Utilities	643,980	651,489	-1.2%
Supplies and materials	381,268	349,966	8.9%
Outside services	340,761	313,006	8.9%
Insurance	88,500	89,256	-0.8%
Other	134,981	135,294	-0.2%
	<u>4,434,228</u>	<u>4,220,875</u>	<u>5.1%</u>
Depreciation	<u>3,847,944</u>	<u>3,838,984</u>	<u>0.2%</u>
	<u>\$ 8,282,172</u>	<u>8,059,859</u>	<u>2.8%</u>

Personnel expenses increased by 6.1%. The increase is due to annual wage adjustments, the addition of a full-time position, and increased accrued vacation and sick pay.

Utilities expenses were down slightly with a reduction in rates and a mild winter reducing heating costs.

Supplies and materials expenses increased by 8.9% due mainly to large maintenance and non-capital improvement projects and additional use of de-icing chemicals on the airfield.

Outside services expenses increased by 8.9% due primarily to the expanded contracting of snow removal services and additional services related to building IT infrastructure.

Insurance expense decreased marginally with minor changes in policies and rates.

Other expense, primarily consisting of overhead costs, decreased by 0.2%.

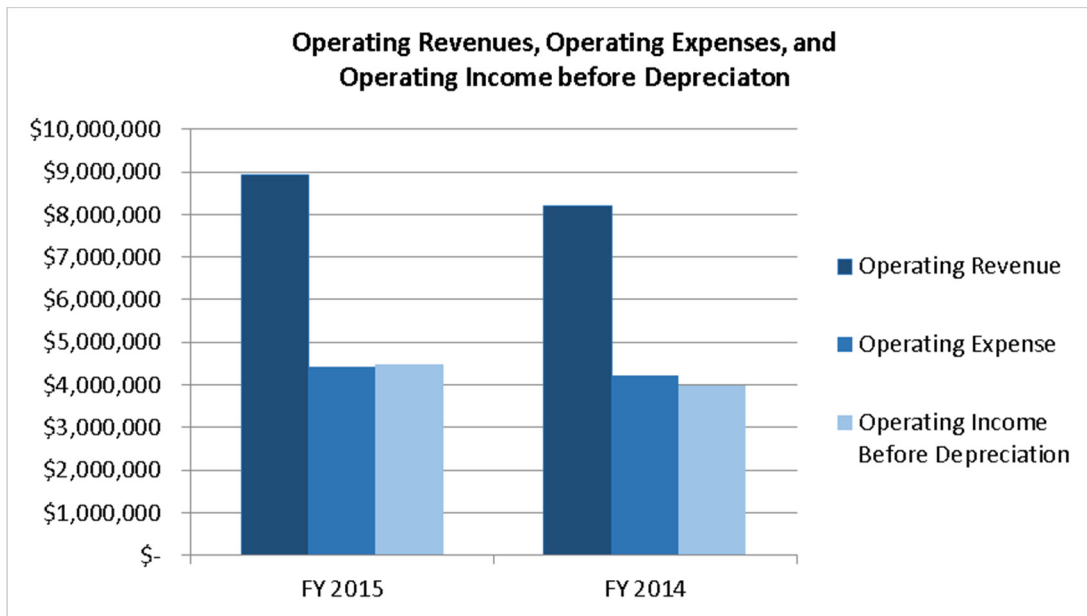
Depreciation expense increased slightly and is attributable to new depreciable assets placed in service during FY 2015.



GALLATIN AIRPORT AUTHORITY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 YEAR ENDED JUNE 30, 2015

Operating Income (before depreciation)

FY 2015 operating income before depreciation was \$4,483,909, up 13.2% compared to FY 2014. The increase in operating expenses of 5.1% was well below the 8.9% growth in operating revenue as reflected in the chart below.



Nonoperating Revenues and Capital Contributions

Nonoperating revenues decreased by 3.1% from FY 2014 to FY 2015, and consist of interest income and non-capital grants. Interest income decreased by 29.9% primarily due to the consolidated rental car facility investment principal reduction. Non-capital grants increased by 87.6% primarily due to the addition of Public Employee Retirement System (PERS) grant revenues from the State of Montana of \$49,356 which was recognized in FY 2015 with the implementation of GASB 68.

Passenger facility charges (PFC) revenues increased by 9.8% from \$1,766,737 in FY 2014 to \$1,939,344 in FY 2015, and is attributable to passenger traffic growth.

Customer facility charges, capital (CFC) revenues increased by 18.5% from \$632,988 in FY 2014 to \$749,939 in FY 2015, commensurate with increased rental car activity.

Capital grant contributions increased by 89.7% from \$1,053,869 in FY 2014 to \$1,998,828 in FY 2015.

- Airport Improvement Program (AIP) capital contributions increased by 113.3% from \$910,460 in FY 2014 to \$1,942,383 in FY 2015.
- American Recovery and Reinvestment Act (ARRA) capital contributions decreased by 32.3% from \$83,409 in FY 2014 to \$56,445 in FY 2015.

GALLATIN AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015

Nonoperating Expenses

Nonoperating expenses increased by 46.5% from FY 2014 to FY 2015, and consist mainly of payments to other agencies and interest expense. Payment to other agencies increased from \$85,354 in FY 2014 to \$399,713 in FY 2015, and represents the Authority's contributions toward the interstate interchange project which was substantially complete at June 30, 2015. Interest expense for the bonds decreased by 2.4% from \$738,786 to \$623,636 due to the declining balance of the outstanding principal amount on the 2009 revenue bonds.

**Statement of Cash Flows**

The following table represents a condensed summary of the statement of cash flows for the fiscal years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash provided by operating activities	\$ 9,132,708	\$ 8,310,094
Cash used by operating activities	<u>(4,441,925)</u>	<u>(3,831,858)</u>
Net cash provided by operating activities	4,690,783	4,478,236
Net cash provided (used) by noncapital financing activities	(421,501)	2,472
Net cash used by capital and related financing activities	(286,609)	(680,844)
Net cash provided by investing activities	<u>150,354</u>	<u>181,764</u>
Net increase in cash and cash equivalents	4,133,027	3,981,628
Cash and cash equivalents, beginning of year	<u>18,979,132</u>	<u>14,997,504</u>
Cash and cash equivalents, end of year	<u><u>\$ 23,112,159</u></u>	<u><u>\$ 18,979,132</u></u>

Cash and cash equivalents increased 21.8% from FY 2014 to FY 2015 primarily due to the net cash provided by operations. Net cash used by noncapital financing activities in FY 2015 primarily relates the Airport's contribution to the interstate interchange project. Net cash used by capital and related financing activities includes capital asset acquisitions and 2009 bond debt service, offset by capital contribution receipts. Net cash provided by investing activities includes interest received and other investment activity.

The Authority has been purposeful in building cash reserves in anticipation of several upcoming major capital improvements that will require significant Authority funding. The Authority intends to maintain \$10 million cash on hand in order to provide for contingencies as well as flexibility in completing projects that are dependent upon FAA funding and appropriations.

GALLATIN AIRPORT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2015

**Capital Projects**

The Authority expended \$4,704,866 on capital projects in FY 2015 compared to \$5,086,718 in FY 2014. Major capital projects activities in FY 2015 include the interstate 90 interchange and access roads project, a wildlife hazard assessment, an environmental assessment for a parallel runway, the expansion of the East ramp, and a de-icing and storm water project.

**Debt Administration**

The Authority approved the issuance of revenue bonds in 2009 to partially fund the terminal expansion completed in 2011. These bonds are paid first from passenger facility charges (currently \$4.50 per enplaned passenger) and second from other revenues and reserves of the Authority.

Note 7 in the notes to the financial statements describes the bonds in greater detail and includes a summary of the repayment structure.

**Request for Information**

This financial report is designed to provide all interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Airport Director, 850 Gallatin Field Road Suite 6, Belgrade, MT 59714.

GALLATIN AIRPORT AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2015

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ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 19,642,871
Receivables	
Customers, net	581,760
Grants	10,137
Prepaid expenses	36,507
	<u>20,271,275</u>

NONCURRENT ASSETS

Restricted assets	
Cash and cash equivalents	3,469,288
Receivables	
Passenger facility charges	322,759
Customs	31,796
	<u>3,823,843</u>

Capital assets

Land	11,575,099
Runways and improvements	37,741,583
Buildings and equipment	76,395,589
Construction in progress	5,566,873
Intangibles	460,840
	<u>131,739,984</u>
Accumulated depreciation	<u>(45,959,203)</u>
	<u>85,780,781</u>

Total assets 109,875,899

DEFERRED OUTFLOWS OF RESOURCES 170,556

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2015

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LIABILITIES

CURRENT LIABILITIES

Accounts payable	234,183
Deposits	225,978
Accrued payroll liabilities	315,703
Prepayments - rents	160,459
Current portion of 2009 revenue bonds payable	535,000
	<u>1,471,323</u>

LONG-TERM LIABILITIES

Net pension liability	1,745,531
2009 revenue bonds payable, less current portion	13,950,000
	<u>15,695,531</u>

Total liabilities 17,166,854

DEFERRED INFLOWS OF RESOURCES 451,074

NET POSITION

Net investment in capital assets	71,295,781
Restricted net position	3,823,843
Unrestricted net position	17,308,903
	<u>17,308,903</u>

Total net position \$ 92,428,527

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2015

OPERATING REVENUES	
Airline	\$ 1,458,820
Rental car concessions	2,623,508
Parking	2,396,074
Other terminal concessions and rents	1,109,858
General aviation	518,771
Air cargo	38,740
Other	772,366
	<u>8,918,137</u>
OPERATING EXPENSES	
Personnel	2,844,738
Utilities	643,980
Supplies and materials	381,268
Outside services	340,761
Insurance	88,500
Other	134,981
	<u>4,434,228</u>
Operating income before depreciation	4,483,909
Depreciation	<u>3,847,944</u>
Operating income	<u>635,965</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	127,567
Other nonoperating revenue	100,887
Payments to other agencies	(399,713)
Other nonoperating expenses	(43,881)
Interest expense	(623,636)
	<u>(838,776)</u>
CAPITAL CONTRIBUTIONS	
Passenger facility charges	1,939,344
Customer facility charges, capital	749,939
Grants	1,998,828
	<u>4,688,111</u>
CHANGE IN NET POSITION	4,485,300
Net position, beginning of year as restated	<u>87,943,227</u>
NET POSITION AT END OF YEAR	<u>\$ 92,428,527</u>

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating cash receipts from customers	\$ 9,132,708
Cash payments to suppliers for goods and services	(1,617,215)
Cash payments to employees for services	<u>(2,824,710)</u>
Net cash provided by operating activities	<u>4,690,783</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments to other agencies	(399,713)
Other	<u>(21,788)</u>
Net cash used by noncapital financing activities	<u>(421,501)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(4,704,866)
Grant receipts	2,939,657
Passenger facility charge receipts	1,872,297
Customer facility charge receipts	749,939
Principal payment on capital debt	(520,000)
Bond interest payments	<u>(623,636)</u>
Net cash used by capital and related financing activities	<u>(286,609)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Reclassification of investments (STIP)	22,787
Interest received	<u>127,567</u>
Net cash provided by investing activities	<u>150,354</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,133,027
Cash and cash equivalents, beginning	<u>18,979,132</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 23,112,159</u></u>
Classified as:	
Cash and cash equivalents	\$ 19,642,871
Restricted cash and cash equivalents	<u>3,469,288</u>
	<u><u>\$ 23,112,159</u></u>

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015

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Reconciliation of operating income  
to net cash provided by operating activities

Operating income	<u>\$ 635,965</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3,847,944
(Increase) decrease in current assets:	
Receivables, customers	122,121
Prepaid expenses	163,134
Increase (decrease) in current liabilities:	
Accounts payable	(190,859)
Deposits	(31,230)
Prepayments - rents	123,680
Accrued payroll liabilities	<u>20,028</u>
Total adjustments	<u>4,054,818</u>
Net cash provided by operating activities	<u><u>\$ 4,690,783</u></u>

See accompanying notes to the financial statements



GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Gallatin Airport Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Gallatin Airport Authority was established by Resolution No. 1553 dated November 22, 1972, of the Board of County Commissioners of Gallatin County, Montana, pursuant to the statutory authority granted in Title 67, Chapter 11, parts 1-3, Montana Code Annotated.

The Authority was established to assume ownership and responsibility for the improvements, equipment and operation of Gallatin Field, with all powers granted to municipal airport authorities by state law and resolved in Resolution 1553. The powers and duties of the Authority are vested in the Board of Commissioners consisting of five members appointed by the Board of County Commissioners of Gallatin County. Pursuant to said Resolution No. 1553, the Authority has assumed ownership and responsibility for the improvements, equipment and operations of Gallatin Field, and all right, title and interest of the City of Bozeman, Gallatin County, and the Authority Board has been granted, conveyed, and transferred to the Authority. The name of the airport known as Gallatin Field was changed to Bozeman Yellowstone International Airport at Gallatin Field by an act of the Gallatin Airport Authority Board at their regular meeting held December 8, 2011.

The Authority, governed by its Board of Commissioners and operated by its employees, is an independent political entity with the authority to contract, own property, incur debt, and generally operate the Airport.

Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Authority's financial statements. The Authority operates as an enterprise fund and its financial statements have been prepared using the economic resources measurement focus. The enterprise fund operates in a manner similar to private business enterprises, where the intent of the Authority is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's financial statements. The Authority uses the accrual basis of accounting. Non-exchange revenues, including grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased are considered to be cash equivalents.

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Authority is authorized by statute to invest in time and savings deposits with a bank, savings and loan association, or credit union in the state. In addition, it may also invest in obligations of the United States Government, securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP).

Inventories

Purchases of supplies are recognized as expenses at the time of purchase. Items on hand at year-end were immaterial.

Accounts Receivable

Accounts receivable represents unpaid billings to outside parties. Due to the nature of the receivables consisting of primarily collected user fees and leases, the Authority considers the majority of these receivables as collectible. A provision for uncollectible receivables in the amount of \$6,200 was established for 2015.

Capital Assets

The Authority's capital assets are capitalized at historical cost. Contributions of capital assets are recorded at fair market value when received. The Authority has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation of capital assets is calculated using the straight-line method with estimated useful lives as follows:

Runways and improvements	5-20 years
Buildings and equipment	3-40 years
Intangibles	20 years

Maintenance and repair costs are expensed as incurred. Replacements, which improve or extend the life of a fixed asset, are capitalized.

Compensated Absences

Vested vacation leave is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave pay benefits that is estimated will be taken when an employee leaves employment.

In November of 2006, the Authority adopted a Montana VEBA Health Benefit Plan. A contribution to the plan is made for each eligible employee separating from service while this plan is in effect, equal to 25% of the employee's unused sick leave. All permanent, full-time employees who have completed their probationary period are eligible.

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Pension Liability and Deferred Outflows/Inflows of Resources

The Authority recognizes net pension liability for the pension plan in which it participates. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investment earnings are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense.

Net Position

Proprietary fund net position is divided into three components:

- Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position– consists of assets that are restricted as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – all other net position is reported in this category.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Operating Revenues and Expenses

Operating revenues include airline, concessions, rents, and other revenues. Concessions and other revenues consist primarily of rental car, parking, and other ancillary services revenues. Such revenue is generally based on a fixed percentage of tenant revenues subject to certain minimum monthly fees or a fixed fee schedule. Concessions and other revenues are recognized when earned.

Operating expenses include personnel costs, utilities, supplies and materials, outside services, other expenses, and depreciation.

Budget

The Authority annually adopts a non-legally binding budget.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. CASH AND INVESTMENTS

At June 30, 2015, the carrying amount of the Authority's deposits in local banks and investments is \$23,112,159. Account balances are covered by the Federal Depository Insurance Corporation (FDIC) up to \$250,000 per bank, per depositor. The remaining balances are covered by collateral held by the pledging bank's agent in the Authority's name.

At June 30, 2015, the Authority's only investment was in the Montana Short-Term Investment Pool (STIP). STIP was created by the State of Montana Board of Investments to allow qualifying funds, per sections 17-6-201, 202 and 204, MCA, to participate in a diversified pool. The carrying amount of this investment as of June 30, 2015 was \$2,603,864. This investment in STIP is considered a cash equivalent.

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2015:

GASB 31

According to GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests on the participant's behalf in an investment portfolio. STIP is also classified as a "2a7-like" pool. A 2a7-like pool is an external investment pool that is not registered with the Security and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair market value to report net assets and to compute unit values. The Board of Investments has adopted a policy to treat STIP as a 2a7-like pool and to utilize an amortized cost unit value rather than fair value to report net assets.

GASB 40

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – Deposit and Investment Risk Disclosures. The unaudited financial statements as of June 30, 2015 have disclosures pertaining to STIP's exposure to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and legal and credit risk.

Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Security Lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year 2015 are disclosed in STIP's financial statements. An unaudited copy of the STIP fiscal year 2015 financial statements is available online at <http://www.investmentmt.com>.

The following are deposit and investment risk disclosures:

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the other fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority minimizes deposit Custodial Credit Risk by obtaining government securities through a repurchase agreement which collateralize the deposits.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority's investment policy requires credit risk to be limited by diversification by financial institution. The Authority's investment policy provides for "no limitation on U.S. government/agency securities". Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement No. 40, the Authority has selected the segmented time distributions method to disclose interest rate risk. The segmented time distributions method discloses interest rate risk by grouping investment types by maturity categories. The Authority's investment policy limits interest rate risk by setting maturity guidelines.

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 2. CASH AND INVESTMENTS (CONTINUED)

The composition of cash and investments on June 30, 2015 was as follows:

	<u>Cost</u>	<u>Market Value</u>
Cash and cash equivalents		
Operating account	\$ 13,182,866	\$ 13,182,866
Capital account	6,460,005	6,460,005
	<u>19,642,871</u>	<u>19,642,871</u>
Restricted cash and cash equivalents		
Small community air service development account	131,311	131,311
Customs	110,204	110,204
Debt service account	190,506	190,506
STIP (described above)		
Operating reserve	1,209,744	1,209,744
Renewal and replacement reserve account	250,000	250,000
Debt service reserve account	1,144,120	1,144,120
PFC reserve account	433,403	433,403
	<u>3,469,288</u>	<u>3,469,288</u>
	<u>\$ 23,112,159</u>	<u>\$ 23,112,159</u>

NOTE 3. CONSTRUCTION IN PROGRESS

Construction in progress consists mainly of the costs associated with the interchange access road improvement project.

GALLATIN AIRPORT AUTHORITY  
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NOTE 4. CHANGES IN CAPITAL ASSETS

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 11,403,141	\$ 171,958	\$ -	\$ 11,575,099
Construction in progress	<u>2,511,368</u>	<u>3,183,505</u>	<u>(128,000)</u>	<u>5,566,873</u>
Total capital assets not being depreciated	<u>13,914,509</u>	<u>3,355,463</u>	<u>(128,000)</u>	<u>17,141,972</u>
Capital assets being depreciated:				
Runways & improvements	37,701,758	39,825	-	37,741,583
Buildings & equipment	75,866,977	528,612	-	76,395,589
Intangibles	<u>332,840</u>	<u>128,000</u>	<u>-</u>	<u>460,840</u>
Total capital assets being depreciated	113,901,575	696,437	-	114,598,012
Less accumulated depreciation	<u>(42,111,259)</u>	<u>(3,847,944)</u>	<u>-</u>	<u>(45,959,203)</u>
Total capital assets being depreciated, net	<u>71,790,316</u>	<u>(3,151,507)</u>	<u>-</u>	<u>68,638,809</u>
Total capital assets, net	<u>\$ 85,704,825</u>	<u>\$ 203,956</u>	<u>\$ (128,000)</u>	<u>\$ 85,780,781</u>

NOTE 5. PREPAYMENTS - RENTS

The Authority reports prepaid rents on its statement of net position when revenues have been received but not yet earned. In subsequent periods, when revenue recognition criteria are met, the liability for prepaid rents is removed from the statement of net position and the revenue is recognized.

NOTE 6. LONG TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2015, is as follows:

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 15,005,000	\$ -	\$ (520,000)	\$ 14,485,000	\$ 535,000
Net pension liability	<u>2,246,230</u>	<u>-</u>	<u>(500,699)</u>	<u>1,745,531</u>	<u>-</u>
Total long term liabilities	<u>\$ 17,251,230</u>	<u>\$ -</u>	<u>\$ (1,020,699)</u>	<u>\$ 16,230,531</u>	<u>\$ 535,000</u>

GALLATIN AIRPORT AUTHORITY  
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NOTE 7. REVENUE BONDS

On August 13, 2009, the Authority approved a resolution to issue revenue bonds (PFC supported) in the aggregate principal amount of up to \$16,000,000, pursuant to Montana Code Annotated, Section 67-11-303, in order to provide funds to pay a portion of the costs to expand, improve, construct, reconstruct and equip the airline terminal building; fund the Debt Service Reserve Account; and pay all or a portion of the costs of issuing the bonds. Maturity dates began in June 1, 2013, and will end June 1, 2034. Interest rates on the bonds range from 3.0% to 4.7% depending on the maturity date. The bonds are secured by a first lien upon the net revenues of the Authority, and by a pledge of the passenger facility charges of the Authority.

Interest is payable semiannually June 1 and December 1. The stated maturity dates, debt service requirements and related interest rates are as follows:

Fiscal Year	Principal Amount	Interest Rate	Interest Amount	Total Principal and Interest
2016	\$ 535,000	3.00%	\$ 608,036	\$ 1,143,036
2017	550,000	3.200%	591,986	1,141,986
2018	565,000	3.400%	574,386	1,139,386
2019	585,000	3.500%	555,176	1,140,176
2020	605,000	3.625%	534,701	1,139,701
2021-2025	3,395,000	3.750-4%	2,312,355	5,707,355
2026-2030	4,175,000	4-4.375%	1,535,613	5,710,613
2031-2034	4,075,000	4.375-4.7%	489,740	4,564,740
	<u>\$ 14,485,000</u>		<u>\$ 7,201,993</u>	<u>\$ 21,686,993</u>

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.



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NOTES TO FINANCIAL STATEMENTS  
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NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Plan Description (Continued)

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

*Member's highest average compensation (HAC)*

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months; Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months; Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

*Eligibility for benefit*

Service retirement:

Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

*Vesting*

5 years of membership service

*Monthly benefit formula*

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Summary of Benefits (Continued)

*Guaranteed Annual Benefit Adjustment (GABA)\**

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

\*At this time, as a result of permanent injunction issued in the *AMRPE vs. State* litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

*Total number of members (employees) covered by benefit terms as of June 30, 2015:*

1. Active plan members: 28,237
2. Inactive members entitled to but not yet receiving benefits or a refund:
  - Vested: 2,925
  - Non-vested: 8,839
3. Inactive members and beneficiaries currently receiving benefits:
  - Service Retirements: 20,080
  - Disability Retirements: 176
  - Survivor Benefits: 425

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
  - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
  - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Overview of Contributions (Continued)

3. Employer contributions to the system:
  - a. State and University System employers are required to contribute 8.27% of members' compensation.
  - b. Local government entities are required to contribute 8.17% of members' compensation.
  - c. School district employers contributed 7.90% of members' compensation.
  - d. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
  - e. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
  - f. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  
4. Non Employer Contributions
  - a. Special Funding
    - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
    - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
  - b. Not Special Funding
    - i. The State contributes from the Coal Tax Severance fund.

Stand-Alone Statements

The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report (CAFR)*. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, 406-444-3154.

CAFR information including our stand alone financial statements can be found on our web site at: <http://mpera.mt.gov/annualReports.shtml>.

The latest actuarial valuation and experience study can be found at our website at: <http://mpera.mt.gov/actuarialValuations.asp>.

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth\* 4.00%
- \*includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases
  - 3% for members hired prior to July 1, 2007
  - 1.5% for members hired on or after July 1, 2007After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

\*At this time as a result of permanent injunction issued in the *AMRPE vs. State* litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. 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 Liability. No municipal bond rate was incorporated in the discount rate.

GALLATIN AIRPORT AUTHORITY  
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NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Target Allocations

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block 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 by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease <u>-6.75%</u>	Current Discount Rate	1.0% Increase <u>-8.75%</u>
PERS' Net Pension Liability	\$ 1,982,274,732	\$ 1,246,010,898	\$ 625,044,646
Employer's proportion	\$ 2,776,960	\$ 1,745,531	\$ 875,622

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
Employer Proportionate Share	\$ 2,246,230	\$ 1,745,531	0.1400900%
State of Montana Proportionate Share associated with Employer	27,430	21,316	0.1779600%
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 2,273,660</u>	<u>\$ 1,766,847</u>	<u>0.3180500%</u>

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NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Net Pension Liability

At June 30, 2015, the employer recorded a liability of \$1,745,531 for its proportionate share of the Net Pension Liability. The Net Pension Liability (NPL) was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the NPL was based on the employer's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2014, the employer's proportion was 0.140090 percent.

*Changes in actuarial assumptions and methods:* There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

*Changes in benefit terms:* There have been no changes in benefit terms since the previous measurement date.

*Changes in proportionate share:* There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense

	Pension Expense as of 6/30/14
Employer Proportionate Share	\$ 86,695
State of Montana Proportionate Share associated with Employer	49,356
 Total	 \$ 136,051

At June 30, 2015, the employer recognized a Pension Expense of \$136,051 for its proportionate share of the PERS' Pension Expense. The employer also recognized grant revenues of \$49,356 for the support provided by the State of Montana for its proportionate share of the Pension Expense that is associated with the employer.

Recognition of Beginning Deferred Outflow – GASB 71

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for the employers FY 2014 contributions of \$141,387.

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NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Deferred Inflows and Outflows

At June 30, 2015, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	-	451,017
Changes in proportion differences between employer contributions and proportionate share of contributions	4,434	57
Difference between actual and expected contributions	-	-
# Contributions paid to PERS subsequent to the measurement date - FY 2015 Contributions	<u>166,122</u>	<u>-</u>
Total	<u>\$ 170,556</u>	<u>\$ 451,074</u>

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease)
2016	\$ 1,105	\$ 112,400	\$ (111,296)
2017	1,105	112,400	(111,296)
2018	1,119	113,873	(112,754)
2019	-	-	-
2020	-	-	-
Thereafter	-	-	-



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NOTE 9. NET POSITION

Net position consists of the following as of June 30, 2015:

Net investment in capital assets:

Capital assets \$ 85,780,781

Less: current liabilities

Current portion of bonds payable for amount invested in capital assets 535,000

Less: long-term liabilities

Bonds payable for amount invested in capital assets, less current portion 13,950,000

Total net investment in capital assets 71,295,781

Restricted net position:

Capital projects and debt service 3,550,532

Air service expansion 131,311

Customs 142,000

Total restricted net position 3,823,843

Unrestricted net position 17,308,903

Total net position \$ 92,428,527

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

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NOTE 10. PROPERTY LEASED TO OTHERS

The Authority leases a portion of its property to commercial airlines, car rental companies, concessionaires, fixed base operators who service the aviation industry, private hangar owners and the Federal Aviation Administration. These leases are non-cancelable operating leases. Certain lease agreements, by their terms, require annual redetermination of the rental charge based on predetermined formulas. The minimum future rentals for these leases were determined using the rates in effect at June 30, 2015. Minimum rentals on non-cancelable leases for the next five years ending June 30 are approximately as follows:

2016	\$ 2,411,448
2017	\$ 1,714,438
2018	\$ 981,455
2019	\$ 740,508
2020	\$ 727,806

The Authority also leases property through contingent rentals in service concession arrangements. The concession agreement is for the purpose of operating the parking facilities at the Airport. Gallatin Airport Authority retains ownership to all assets related to the parking facility and agrees to maintain the parking asphalt, lights and perimeter barriers. The term of the agreement is for a 12 month period and is a revenue sharing agreement requiring a minimum annual guarantee or a percentage of annual receipts, whichever is greater. Contingent rental payments received by the Authority totaled \$4,359,016 for the year ended June 30, 2015 and were in excess of the minimum annual guarantee.

NOTE 11. PASSENGER FACILITY CHARGE PROGRAM

In 1990, the United States Congress enacted the Aviation Safety and Capacity Expansion Act ("ASCEA") of 1990, which allows public agencies controlling commercial service airports to charge eligible enplaning passengers at the airport a \$1, \$2 or \$3 passenger facility charge, or PFC. In 2000, the U.S. Congress passed the Aviation Investment and Reform Act for the 21st Century ("AIR-21"), which allowed airports to levy a PFC of \$4.00 or \$4.50 per eligible enplaned passenger. Gallatin Airport Authority was authorized to impose the PFC beginning August 1, 1993. The Authority will continue to impose the PFC until "the total net PFC revenues collected plus interest thereon equals the allowable cost of the approved projects."

The proceeds from PFCs are to be used to finance eligible airport-related projects that preserve or enhance safety, capacity or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers.

The active PFC approved project during the year ended June 30, 2015 was PFC 09-05-C-00-BZN. The PFC project No. 09-05-C-00-BZN effective July 1, 2011, authorized a charge of \$4.50 per enplaned passenger and total project expenditures of \$29,000,000. This project expires March 1, 2029.

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

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NOTE 12. CUSTOMER FACILITY CHARGES

Customer facility charges (CFCs) are levied by the Authority pursuant to an agreement with the rental car companies serving the Authority. The CFC rate was \$2.75 per contract rental day as of June 30, 2015.

NOTE 13. RELATED PARTIES

Kevin Kelleher (Board Member) as a member of Sunnyside Storage Condo Association, entered into a 10-year lease with the Authority on March 1, 1996. An option for a 10-year renewal was taken. Lease revenues for the year ended June 30, 2015 was \$1,874.

Karen Stelmak (Board Member) and Tom Stelmak entered into a 10-year lease with the Authority beginning September 1, 1999. An option for a 10-year renewal was taken. Lease revenues for the year ended June 30, 2015 was \$652.

Ted Mathis (Board Member) rents a hangar from the Authority on a month-to-month basis. The hangar rents for \$150 per month. Rental revenues for the year ended June 30, 2015 was \$1,800.

There were no amounts due to or from any of these related parties at the statement of net position date.

NOTE 14. CONCENTRATIONS

The Gallatin Airport Authority receives a significant portion of its operating revenues from leasing the parking facility. The revenues from this lease accounted for approximately 27% of operating revenues for the year ended June 30, 2015.

NOTE 15. RISK MANAGEMENT

Significant losses for public officials, automobiles, property, and general liability are covered by commercial insurance policies. There have been no significant reductions in insurance coverage. Insurance coverage for potential losses due to environmental damages is not available. Therefore, the Authority has no coverage for such potential losses.

NOTE 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 16, 2015, the date on which these financial statements were available to be issued.

GALLATIN AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

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NOTE 17. COMMITMENT

The Authority had entered into an agreement with Gallatin County and the City of Belgrade to establish the roles, responsibilities and commitments relative to the planning, sequencing, costs, administration, design, construction and maintenance responsibilities necessary for the planning and construction of a new Interstate 90 interchange and connector roadways to be located in the vicinity of the Gallatin Airport Authority. The Authority had committed funding not-to-exceed \$3,000,000 for this project. As of June 30, 2015, this commitment was substantially met.

NOTE 18. PRIOR PERIOD ADJUSTMENTS

In the year ended June 30, 2015, the Authority adopted the following standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" (GASB 68).

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68" (GASB 71).

The primary objective of these GASB Statements is to improve accounting and financial reporting by state and local governments for pensions. They also improve information provided by other entities.

The Authority participates in the Montana Retirement System that is administered by the State of Montana. The implementation of GASB 68 and GASB 71 resulted in the restatement of the beginning net position of the Authority. The unfunded pension obligation and related deferred inflows and outflows as of June 30, 2014 were restated as an expense of prior periods.

During the year ended June 30, 2015, the Authority also determined that Customs activity should be accounted for as an operating activity. Previously, this activity was accounted for as if the Authority was an agent.

The above prior period adjustments resulted in the restatement of net position as of June 30, 2014 as follows:

Net position at June 30, 2014	\$ 90,016,757
Change in accounting principle for pensions	(2,104,843)
Correction of error for customs activity	<u>31,313</u>
Net position at June 30, 2014, restated	<u><u>\$ 87,943,227</u></u>

GALLATIN AIRPORT AUTHORITY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 PENSION SCHEDULES  
 YEAR ENDED JUNE 30, 2015

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Employer's proportion of the net pension liability	\$ 1,745,531
Employer's proportionate share of the net pension liability associated with the Employer (as a percentage)	0.14009%
State of MT proportionate share of the net pension liability associated with the Employer	<u>\$ 21,316</u>
Total	\$ 1,766,847
Employer's pensionable payroll	\$ 1,585,811
Employer's covered-employee payroll	\$ 2,033,318
Employer's proportionate share of the net pension liability as a percentage as of its covered payroll	85.8464%
Plan fiduciary net position as a percentage of the total pension liability	79.9000%

SCHEDULE OF CONTRIBUTIONS

Contractually required contributions	\$ 166,122
Contributions in relation to the contractually required contributions	<u>\$ 166,122</u>
Contribution deficiency (excess)	\$ -
Employer's pensionable payroll	\$ 1,585,811
Employer's covered-employee payroll	\$ 2,033,318
Contributions as a percentage of covered-employee payroll	8.1700%

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# STATISTICAL SECTION



GALLATIN AIRPORT AUTHORITY

STATISTICAL SECTION INTRODUCTION

The Statistical Section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health. Unless otherwise noted, the information in these schedules is derived from the financial statements for the relevant year.

Contents Page

Financial Trends ..... 57-58

*These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.*

Revenue Capacity ..... 59

*This schedule contains information to help the reader assess the Authority's significant revenue sources.*

Debt Capacity ..... 60

*This schedule presents information to help the users understand and assess the Authority's outstanding debt and its ability to cover and issue additional debt.*

Operating Information ..... 61-65

*These schedules present contextual information about the Authority's operations and resources to help users to understand and assess the Authority's economic condition.*

Demographic and Economic Information ..... 66-67

*These schedules contain information to help users understand the socio-economic environment in which the Authority operates.*



GALLATIN AIRPORT AUTHORITY  
NET POSITION AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating revenues	\$ 8,918,137	8,192,195	7,271,248	7,020,641	6,409,745	5,213,902	5,116,543	5,189,143	4,732,686	4,572,485
Operating expenses, excluding depreciation	(4,434,228)	(4,220,875)	(3,738,986)	(3,753,073)	(3,395,632)	(2,924,352)	(2,853,637)	(2,915,127)	(2,642,123)	(2,602,284)
Operating income, before depreciation	4,483,909	3,971,320	3,532,262	3,267,568	3,014,113	2,289,550	2,262,906	2,274,016	2,090,563	1,970,201
Depreciation	(3,847,944)	(3,838,984)	(3,808,951)	(3,138,429)	(2,804,084)	(2,349,507)	(2,219,575)	(1,932,554)	(1,843,119)	(1,693,806)
Operating income (loss)	635,965	132,336	(276,689)	129,139	210,029	(59,957)	43,331	341,462	247,444	276,395
Net nonoperating revenues (expenses)	(838,776)	(492,652)	(2,532,583)	(375,885)	(261,015)	(69,751)	357,407	577,630	659,930	494,297
Capital contributions	4,688,111	3,453,594	5,458,916	6,171,495	10,943,695	7,973,867	937,563	4,054,186	961,176	4,172,545
Change in net position	\$ 4,485,300	3,093,278	2,649,644	5,924,749	10,892,709	7,844,159	1,338,301	4,973,278	1,868,550	4,943,237
Net position										
Net investment										
in capital assets	\$ 71,295,781	70,699,825	68,139,366	70,950,755	68,968,216	51,862,033	45,450,294	41,407,733	39,013,966	39,778,723
Restricted	3,823,843	3,889,792	3,688,614	4,321,487	3,743,265	1,374,009	252,876	623,900	318,417	106,487
Unrestricted	17,308,903	15,427,140	15,095,499	9,262,045	5,898,057	14,480,787	14,169,500	16,502,736	14,228,708	11,807,331
Total net position	\$ 92,428,527	90,016,757	86,923,479	84,534,287	78,609,538	67,716,829	59,872,670	58,534,369	53,561,091	51,692,541

GALLATIN AIRPORT AUTHORITY  
CHANGES IN CASH AND CASH EQUIVALENTS  
YEARS ENDED JUNE 30

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Cash Flows From										
Operating Activities										
Receipts from customers	\$ 9,132,708	8,310,094	6,797,025	7,374,859	6,141,263	5,251,111	5,173,558	5,049,305	4,909,182	4,860,502
Payments to suppliers	(1,617,215)	(1,283,050)	(1,301,140)	(1,938,020)	(1,856,251)	(1,472,452)	(1,456,709)	(1,730,667)	(1,586,757)	(1,661,210)
Payments to employees	(2,824,710)	(2,548,808)	(2,418,829)	(1,683,672)	(1,581,555)	(1,424,946)	(1,445,208)	(1,136,575)	(1,012,539)	(906,457)
	<u>4,690,783</u>	<u>4,478,236</u>	<u>3,077,056</u>	<u>3,753,167</u>	<u>2,703,457</u>	<u>2,353,713</u>	<u>2,271,641</u>	<u>2,182,063</u>	<u>2,309,886</u>	<u>2,292,835</u>
Cash Flows from noncapital financing activities	(421,501)	2,472	(1,763,498)	-	-	-	-	18,000	18,000	12,000
Cash from capital and related financing activities										
Capital asset purchases	(4,704,866)	(5,086,718)	(784,655)	(5,169,833)	(26,337,569)	(18,073,137)	(5,960,800)	(4,326,322)	(1,078,362)	(5,478,818)
Grant receipts (payments)	2,939,657	3,034,925	2,675,653	4,347,500	6,281,230	5,915,850	(17,821)	3,384,988	1,168,412	2,728,804
Passenger facility charge receipts	1,872,297	1,825,957	1,683,650	1,505,714	1,442,664	1,307,979	839,432	825,526	767,227	752,015
Customer facility charge receipts	749,939	632,988	582,553	450,436	420,987	224,565	-	-	-	-
Bond proceeds received	-	-	-	-	-	16,000,000	-	-	-	-
Bond principal payments	(520,000)	(505,000)	(490,000)	-	-	-	-	-	-	-
Bond interest payments	(623,636)	(638,786)	(653,486)	(653,486)	(653,486)	(399,353)	-	-	-	-
Other receipts (payments)	-	55,790	-	560,687	-	(339,645)	(16,642)	(316,198)	-	-
	<u>(286,609)</u>	<u>(680,844)</u>	<u>3,013,715</u>	<u>1,041,018</u>	<u>(18,846,174)</u>	<u>4,636,259</u>	<u>(5,155,831)</u>	<u>(432,006)</u>	<u>857,277</u>	<u>(1,997,999)</u>
Cash from investing activities										
Investments purchased	-	-	(22,755)	(2,803)	(36,380)	(1,144,120)	-	(10,500,000)	-	-
Interest received	127,567	181,764	269,044	309,823	419,569	198,526	33,069	487,110	641,930	482,297
Proceeds from sale of investments	-	-	1,148,636	-	7,456,337	3,633,362	-	-	-	-
Reclassification of investments	22,787	-	-	-	-	-	-	-	-	-
	<u>150,354</u>	<u>181,764</u>	<u>1,394,925</u>	<u>307,020</u>	<u>7,839,526</u>	<u>2,687,768</u>	<u>33,069</u>	<u>(10,012,890)</u>	<u>641,930</u>	<u>482,297</u>
Net increase (decrease) in cash and cash equivalents	4,133,027	3,981,628	5,722,198	5,101,205	(8,303,191)	9,677,740	(2,851,121)	(8,244,833)	3,827,093	789,133
Cash and cash equivalents, beginning of year	<u>18,979,132</u>	<u>14,997,504</u>	<u>9,275,306</u>	<u>4,174,101</u>	<u>12,477,292</u>	<u>2,799,552</u>	<u>5,650,673</u>	<u>13,895,506</u>	<u>10,068,413</u>	<u>9,279,280</u>
Cash and cash equivalents, end of year	<u>\$ 23,112,159</u>	<u>18,979,132</u>	<u>14,997,504</u>	<u>9,275,306</u>	<u>4,174,101</u>	<u>12,477,292</u>	<u>2,799,552</u>	<u>5,650,673</u>	<u>13,895,506</u>	<u>10,068,413</u>

**GALLATIN AIRPORT AUTHORITY**  
**OPERATING REVENUES, AIRLINE COST PER ENPLANEMENT, AND AIRLINE RATES AND CHARGES**  
**YEARS ENDED JUNE 30**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Airline Revenues</b>										
Landing fees	\$ 605,493	572,559	571,210	555,505	521,056	466,433	477,578	524,409	464,372	429,718
Terminal rentals	853,327	817,776	791,456	788,265	736,511	692,306	719,375	678,325	650,734	632,676
	1,458,820	1,390,335	1,362,666	1,343,770	1,257,567	1,158,739	1,196,953	1,202,734	1,115,106	1,062,394
<b>Non-airline Revenues</b>										
Rental car	2,623,508	2,416,367	2,095,095	2,071,122	1,961,511	1,574,006	1,550,428	1,609,007	1,519,780	1,480,488
Parking	2,396,074	2,112,716	1,819,414	1,673,893	1,433,181	1,090,261	1,106,730	1,060,472	834,200	835,963
Other terminal concessions and rents	1,109,858	1,030,027	923,605	828,981	626,341	473,092	462,942	472,180	490,306	486,428
General aviation	518,771	482,364	461,657	454,478	457,754	436,800	415,110	474,284	411,590	375,837
Air cargo	38,740	38,364	37,685	36,719	36,788	36,505	30,894	29,299	29,713	29,925
Other	772,366	722,022	571,126	611,678	636,603	444,499	353,486	341,167	331,991	301,450
<b>Total operating revenues</b>	<b>\$ 8,918,137</b>	<b>8,192,195</b>	<b>7,271,248</b>	<b>7,020,641</b>	<b>6,409,745</b>	<b>5,213,902</b>	<b>5,116,543</b>	<b>5,189,143</b>	<b>4,732,686</b>	<b>4,572,485</b>
<b>Total scheduled enplanements</b>	<b>498,363</b>	<b>456,436</b>	<b>438,539</b>	<b>406,813</b>	<b>385,031</b>	<b>364,198</b>	<b>342,582</b>	<b>351,214</b>	<b>334,505</b>	<b>316,896</b>
<b>Airline cost per enplanement</b>	<b>\$ 2.93</b>	<b>3.05</b>	<b>3.11</b>	<b>3.30</b>	<b>3.27</b>	<b>3.18</b>	<b>3.49</b>	<b>3.42</b>	<b>3.33</b>	<b>3.35</b>
<b><u>Airline Rates and Charges</u></b>										
Landing fee (per 1,000 lbs. over 12,500 GLW)	\$ 1.06	1.14	1.11	1.11	1.15	1.12	1.12	1.03	1.05	0.96
Terminal rents (per sq. ft. per year):										
Finished	\$ 22.27	22.27	22.27	22.27	22.27	21.62	21.06	21.89	20.98	19.30
Unfinished	\$ 12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.59	11.58
Jetway rent (per use)	\$ 10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

Source: Gallatin Airport Authority records

GALLATIN AIRPORT AUTHORITY  
DEBT SERVICE, COVERAGES, AND RATIOS  
YEARS ENDED JUNE 30

	2015	2014	2013	2012	2011	2010	2009 *	2008 *	2007 *	2006 *
Operating revenue	\$ 8,918,137	7,824,487	6,975,180	7,020,641	6,409,745	5,213,902	5,116,543	5,189,143	4,732,686	4,572,485
Operating expenses										
excluding depreciation	4,434,228	3,947,091	3,722,344	3,736,433	3,378,990	2,907,710	2,836,995	(2,915,127)	(2,642,123)	(2,602,284)
Operating income										
before depreciation	4,483,909	3,877,396	3,252,836	3,284,208	3,030,755	2,306,192	2,279,548	2,274,016	2,090,563	1,970,201
Net nonoperating										
revenues (expenses)	(838,776)	(398,728)	(2,236,515)	(375,885)	(261,015)	(69,751)	357,407	577,630	659,930	494,297
Net revenue available										
for debt service	3,645,133	3,478,668	1,016,321	2,908,323	2,769,740	2,236,441	2,636,955	2,851,646	2,750,493	2,464,498
Passenger facility charges	1,939,344	1,766,737	1,696,972	1,583,069	1,473,313	1,281,823	955,384	817,883	772,192	764,971
Pledged revenue available										
for debt service	\$ 5,584,477	5,245,405	2,713,293	4,491,392	4,243,053	3,518,264	3,592,339	3,669,529	3,522,685	3,229,469
Debt service on										
2009 revenue bonds										
Principal	\$ 520,000	505,000	490,000	-	-	-	-	-	-	-
Interest	623,636	638,786	653,486	653,486	653,486	399,353	-	-	-	-
	\$ 1,143,636	1,143,786	1,143,486	653,486	653,486	399,353	-	-	-	-
Debt service coverage on										
2009 revenue bonds	4.88	4.59	2.37	6.87	6.49	8.81	-	-	-	-
Outstanding debt										
2009 revenue bonds	\$ 14,485,000	15,005,000	15,510,000	16,000,000	16,000,000	16,000,000	-	-	-	-
Enplaned passengers	499,977	457,716	440,203	408,199	386,092	365,210	342,714	351,214	335,276	317,850
Outstanding debt per										
enplaned passenger	\$ 28.97	32.78	35.23	39.20	41.44	43.81	-	-	-	-

\* There was no outstanding debt FY 2006 through FY 2009

Source: Gallatin Airport Authority records

GALLATIN AIRPORT AUTHORITY  
AIRCRAFT OPERATIONS AND TOTAL PASSENGERS  
YEARS ENDED JUNE 30

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<u>Aircraft Operations</u>										
Air carrier	10,388	8,642	8,708	7,908	7,587	7,307	7,815	8,261	7,572	6,777
Air taxi	8,336	9,454	9,222	9,470	10,385	9,269	9,189	10,952	10,717	11,871
General aviation itinerant	30,135	28,178	27,875	28,387	25,828	26,608	27,608	31,931	30,398	28,419
Military	220	315	262	285	173	264	255	635	173	172
Total itinerant	49,079	46,589	46,067	46,050	43,973	43,448	44,867	51,779	48,860	47,239
General aviation local	30,653	31,893	30,770	36,066	26,050	23,693	30,012	30,478	31,449	30,986
Total aircraft operations	79,732	78,482	76,837	82,116	70,023	67,141	74,879	82,257	80,309	78,225
<u>Total Passengers</u>										
Enplanements	499,977	457,716	440,203	408,199	386,092	365,210	342,714	351,214	335,276	317,850
Deplanements	497,664	459,844	437,043	409,910	385,157	362,838	340,563	351,281	335,598	315,912
Total	997,641	917,560	877,246	818,109	771,249	728,048	683,277	702,495	670,874	633,762
Growth	8.7%	4.6%	7.2%	6.1%	5.9%	6.6%	-2.7%	4.7%	5.9%	-5.8%

Source: Gallatin Airport Authority records

GALLATIN AIRPORT AUTHORITY  
ENPLANEMENTS AND LOAD FACTOR BY AIR CARRIER  
YEARS ENDED JUNE 30

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Delta										
Enplanements	202,090	187,650	169,026	161,312	157,896	118,958	82,093	93,478	99,813	101,837
Load factor	82.8%	86.6%	86.5%	86.4%	82.0%	89.1%	73.7%	77.5%	75.8%	57.6%
Northwest										
Enplanements	-	-	-	-	-	36,966	75,426	92,542	91,989	97,807
Load factor	-	-	-	-	-	86.9%	71.4%	77.1%	75.5%	77.2%
United										
Enplanements	159,892	149,967	136,568	123,676	128,789	119,649	98,560	95,352	94,554	76,161
Load factor	80.3%	87.2%	85.5%	84.5%	80.2%	89.7%	77.9%	72.5%	89.7%	93.4%
Alaska										
Enplanements	70,012	52,949	47,701	43,906	40,430	37,070	31,081	39,626	43,690	37,067
Load factor	82.7%	84.4%	80.5%	79.1%	71.1%	87.1%	71.7%	71.6%	107.5%	90.8%
Frontier										
Enplanements	37,221	36,312	47,583	45,777	34,916	35,847	42,528	27,039	-	-
Load factor	90.2%	88.1%	80.7%	80.0%	80.8%	69.5%	53.8%	304.9%	0.0%	0.0%
Allegiant										
Enplanements	29,148	29,558	37,661	32,142	23,000	15,708	12,894	3,025	-	-
Load factor	86.9%	88.6%	91.2%	89.7%	88.6%	97.9%	113.1%	0.0%	0.0%	0.0%
Big Sky										
Enplanements	-	-	-	-	-	-	-	152	4,459	4,024
Load factor	-	-	-	-	-	-	-	4.4%	47.2%	66.5%
Total scheduled										
enplanements	498,363	456,436	438,539	406,813	385,031	364,198	342,582	351,214	334,505	316,896
Average load factor	82.7%	86.8%	85.2%	84.5%	80.3%	86.8%	71.8%	79.9%	81.8%	73.4%
Charter enplanements										
	1,614	1,280	1,664	1,386	1,061	1,012	132	-	771	954
Total enplanements										
	499,977	457,716	440,203	408,199	386,092	365,210	342,714	351,214	335,276	317,850

Source: Gallatin Airport Authority records

GALLATIN AIRPORT AUTHORITY  
 BUDGETED EMPLOYEES BY DEPARTMENT  
 YEARS ENDED JUNE 30

Year	Airport Maintenance & ARFF	Building Maintenance & Custodial	Public Safety	Administration	Total
2015	12	7	7	5	31
2014	12	7	7	5	31
2013	11	7	7	5	30
2012	11	7	7	5	30
2011	11	7	7	5	30
2010	10	6	6	5	27
2009	10	6	6	4	26
2008	10	6	-	4	20
2007	10	6	-	4	20
2006	10	6	-	4	20

Source: Gallatin Airport Authority's operating budget records

GALLATIN AIRPORT AUTHORITY  
INSURANCE COVERAGE  
YEAR ENDED JUNE 30, 2015

Insurer	Coverage	Amount	Expires	Annual Premium
Travelers Indemnity Company	Commercial Buildings	\$67,548,728	8/10/2015	\$ 48,204
Cincinnati Insurance Company	Commercial Auto	\$ 3,000,000	8/10/2015	\$ 12,902
	Contractors' Equipment	\$ 497,712	8/10/2015	\$ 1,994
Cincinnati Insurance Company	Public Employees Crime Policy	\$ 50,000	8/10/2015	\$ 2,478
Cincinnati Insurance Company	Directors & Officers Liability and Employment Practices Liability	\$ 1,000,000	8/10/2015	\$ 6,119
Ace Property & Casualty Insurance Co.	Aviation Liability	\$30,000,000	8/10/2015	\$ 9,083
Darwin Select Insurance Co.	Law Enforcement Liability	\$ 2,000,000	8/10/2015	\$ 4,542



GALLATIN AIRPORT AUTHORITY  
AIRPORT INFORMATION  
YEAR ENDED JUNE 30, 2015

Location:	9 miles northwest of Bozeman, MT		
Area:	3,188 acres		
Airport code:	BZN		
Elevation:	4,475'		
Runways:	12/30	Paved	8,994' x 150'
	03/21	Paved	2,650' x 75'
	11/29	Turf	3,197' x 80'
Terminal	205,000 sq. ft.		
Terminal apron	489,250 sq. ft.		
Parking spaces	Pay parking:		
	Long-term	1,047	
	Short-term	<u>347</u>	1,394
	Rental car parking:		
	Ready	275	
	Return	<u>332</u>	607
	Employee parking		<u>271</u>
	Total		2,272
General aviation aprons:	Old terminal	78,750	sq. ft.
	GA ramp	583,395	sq. ft.
	Tie down apron	125,985	sq. ft.
	East ramp	400,000	sq. ft.
	FedEx ramp	<u>40,450</u>	<u>sq. ft.</u>
	Total	1,228,580	sq. ft.
Based aircraft:	Sailplane	10	
	Single engine (piston)	229	
	Twin engine (piston)	12	
	Single engine (turboprop)	8	
	Twin engine (turboprop)	6	
	Single engine (jet)	4	
	Multi engine (jet)	20	
	Helicopter	<u>22</u>	
	Total	311	
Hangars:	160		
Fixed based operators:	Arlin's Aircraft Yellowstone Jetcenter		
International:	U.S. Customs and Border Protection User Fee Facility		

GALLATIN AIRPORT AUTHORITY  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 YEARS ENDED JUNE 30

GALLATIN COUNTY

Year	Population	Per Capita Income	Personal Income	Unemployment Rate
2015	unavailable	unavailable	unavailable	unavailable
2014	97,308	unavailable	unavailable	2.9%
2013	94,694	40,670	3,851,204,980	3.4%
2012	92,604	40,653	3,764,630,412	4.4%
2011	91,333	38,058	3,475,951,314	5.1%
2010	89,599	35,477	3,178,703,723	5.8%
2009	90,343	34,710	3,135,805,530	6.0%
2008	89,812	36,383	3,267,629,996	3.6%
2007	87,300	36,473	3,184,092,900	2.3%
2006	84,498	34,818	2,942,051,364	2.0%

MONTANA

Year	Population	Per Capita Income	Personal Income	Unemployment Rate
2015	unavailable	unavailable	unavailable	unavailable
2014	1,023,579	39,903	40,843,872,837	4.7%
2013	1,014,864	38,884	39,461,971,776	5.4%
2012	1,005,163	39,102	39,303,883,626	6.1%
2011	997,661	36,959	36,872,552,899	7.0%
2010	990,575	34,737	34,409,603,775	7.3%
2009	974,989	33,627	32,785,955,103	6.9%
2008	968,035	34,912	33,796,037,920	4.9%
2007	957,225	33,374	31,946,427,150	3.5%
2006	946,230	31,484	29,791,105,320	3.5%

Sources:  
 Census Bureau  
 Bureau of Economic Analysis

GALLATIN AIRPORT AUTHORITY  
 PRINCIPAL EMPLOYERS IN REGION  
 CURRENT YEAR AND NINE YEARS PRIOR

Current Year *		2006	
Private Employers By Class	Number of Employees	Private Employers By Class	Number of Employees
Bozeman Deaconess Hospital	1,000 +	Bozeman Deaconess Hospital	500 to 999
Oracle America	250 to 499	Capital Opportunities	250 to 499
Wal Mart	250 to 499	Murdoch's Ranch & Home Supply	250 to 499
Albertson's	100 to 249	Wal Mart	250 to 499
Bridger Bowl	100 to 249	Albertsons	100 to 249
Community Food Co-Op	100 to 249	Big Sky Publishing	100 to 249
Costco	100 to 249	Community Food Co-Op	100 to 249
Federal Premium Ammunition	100 to 249	Costco	100 to 249
First Security Bank	100 to 249	First Security Bank	100 to 249
First Student	100 to 249	The Home Depot	100 to 249
GranTree Inn	100 to 249	JTL Group	100 to 249
Kenyon Noble	100 to 249	JWT Restaurant Group	100 to 249
Korman Marketing Group	100 to 249	Kenyon Noble Lumber & Hardware	100 to 249
Martel Construction	100 to 249	Martel Construction	100 to 249
McDonalds	100 to 249	Montana Conservation Corps	100 to 249
Murdoch's Ranch & Home Supply	100 to 249	Ressler Motors	100 to 249
Ressler Motors	100 to 249	Right Now Technologies	100 to 249
Town & Country Foods	100 to 249	Schlauch Bottcher Construction	100 to 249
Town Pump Convenience Stores	100 to 249	Simkin Hallin Lumber	100 to 249
Zoot Enterprises	100 to 249	Williams Plumbing & Heating	100 to 249
Public Employers By Class	Number of Employees	Public Employers By Class	Number of Employees
Montana State University	1,000 +	Montana State University	1,000 +
School District #7	1,000 +	School District #7	500 to 999
City of Bozeman	250 to 499	City of Bozeman	250 to 499
Gallatin County	250 to 499	Gallatin County	250 to 499

\* 2013 information is presented for current year and is the most recent available

Region is defined as Gallatin County

Source: Montana Department of Labor & Industry

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# COMPLIANCE SECTION



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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*

To the Board of Directors  
Gallatin Airport Authority  
Belgrade, Montana

We have audited, in accordance with the 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 Gallatin Airport Authority (Authority), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Gallatin Airport Authority's basic financial statements, and have issued our report thereon dated November 16, 2015.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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*.

### **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.

*Holmes & Turner*

November 16, 2015



INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors  
Gallatin Airport Authority  
Belgrade, Montana

**Report on Compliance for the Major Federal Program**

We have audited Gallatin Airport Authority's (Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2015. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of 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 the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on the Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

### **Report on Internal Control over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Holmes & Turner*

November 16, 2015

GALLATIN AIRPORT AUTHORITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2015

FEDERAL SOURCE PASS-THROUGH SOURCE PROGRAM NAME	CFDA NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF TRANSPORTATION		
<i>Federal Aviation Administration -</i>		
Project No. 3-30-0010-38	20.106	\$ 12,233
Project No. 3-30-0010-42	20.106	2,558,512
Project No. 3-30-0010-43	20.106	184,767
Subtotal		2,755,512
<i>Small Community Air Service Development</i>	20.930	43,531
Total U.S. Dept. of Transportation		2,799,043
U.S. DEPARTMENT OF HOMELAND SECURITY		
TSA Airport Checked Baggage Inspection Program (ARRA)	97.117	56,445
Total expenditures of federal awards		\$ 2,855,488

Notes to Schedule of Expenditures of Federal Awards

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

This schedule was prepared on the same basis of accounting as the financial statements (see Note 1).

The schedule of expenditures of federal awards for the year ended June 30, 2015 has been subjected to the applicable compliance testing requirements prescribed by OMB Circular A-133.

GALLATIN AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015

**Section I - Summary of Auditor's Results**

*Financial Statements*

The auditor's report expresses an unmodified opinion on the financial statements of Gallatin Airport Authority.

Internal control over financial reporting:

- There were no material weaknesses identified.
- There were no significant deficiencies identified.
- No instances of noncompliance material to the financial statements of Gallatin Airport Authority were disclosed during the audit.

*Federal Awards*

Internal control over the major program:

- There were no material weaknesses identified.
- There were no significant deficiencies identified.

The auditor's report on compliance for the major federal award program for Gallatin Airport Authority expresses an unmodified opinion on the major federal program.

There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

The program tested as a major program is as follows:

CFDA #20.106                      U.S. Department of Transportation, Federal Aviation Administration

The \$300,000 threshold was used in distinguishing between Type A and Type B programs.

Gallatin Airport Authority was not a low-risk auditee. An audit in accordance with OMB Circular A-133 was not conducted for the year ended June 30, 2013 based on the level of federal expenditures in that year.

**Section II – Financial Statement Findings**

Significant Deficiencies

None

**Section III – Major Federal Award Findings and Questioned Costs**

None

GALLATIN AIRPORT AUTHORITY  
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2015

There were no findings, questioned costs, or significant deficiencies reported for the year ended June 30, 2014.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE FOR  
PASSENGER FACILITY CHARGE (PFC) PROGRAMS

To the Board of Commissioners  
Gallatin Airport Authority  
Belgrade, Montana

**Report on Compliance**

We have audited Gallatin Airport Authority's (Authority) compliance with the types of compliance requirements described in 14 CFR Part 158 "Passenger Facility Charges" (PFC) that are applicable to the PFC program for the year ended June 30, 2015.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws and regulations applicable to passenger facility charges.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Authority's PFC based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards in 14 CFR Part 158, "Passenger Facility Charges." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the program facility charge 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 passenger facility charges. However, our audit does not provide a legal determination on the Authority's compliance with those requirements.

**Opinion on Passenger Facility Charges**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program for the year ended June 30, 2015.

## Report on Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to passenger facility charges. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on the program facility charge program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the internal control over compliance in accordance with the standards in 14 CFR Part 158, "Passenger Facility Charges", but not for the purpose of expressing an opinion on the effectiveness of the Authority's 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Purpose of this Report

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 14 CFR Part 158 that are applicable to Passenger Facility Charges. Accordingly, this report is not suitable for any other purpose.

*Holmes & Turner*

November 16, 2015



GALLATIN AIRPORT AUTHORITY  
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED  
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>Cumulative to June 30, 2015</u>	<u>Cumulative to June 30, 2014</u>
SOURCES:		
PFC collections	\$ 19,420,354	\$ 17,548,056
Interest earned	<u>286,871</u>	<u>285,762</u>
Total sources	<u>19,707,225</u>	<u>17,833,818</u>
USES:		
Debt Service 1993 Revenue Bonds		
Principal	2,379,667	2,379,667
Interest	1,040,381	1,040,381
Debt Service 2009 Revenue Bonds		
Principal	1,515,000	995,000
Interest	<u>3,622,233</u>	<u>2,998,597</u>
	8,557,281	7,413,645
Cost of improvements	<u>10,526,035</u>	<u>9,525,684</u>
Total uses	<u>19,083,316</u>	<u>16,939,329</u>
BALANCE	<u>\$ 623,909</u>	<u>\$ 894,489</u>
BALANCE HELD IN:		
Debt service account	\$ 190,506	\$ 51,970
PFC reserve account at June 30	<u>433,403</u>	<u>842,519</u>
	<u>\$ 623,909</u>	<u>\$ 894,489</u>

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GALLATIN AIRPORT AUTHORITY | 850 GALLATIN FIELD ROAD SUITE 6 BELGRADE MT 59714 | 406.388.6632

[WWW.BOZEMANAIRPORT.COM](http://WWW.BOZEMANAIRPORT.COM)