2018

Comprehensive

ANNUAL FINANCIAL REPORT

Gallatin Airport Authority

Belgrade, Montana

Bozeman Yellowstone Internal Airport (BZN) connects Bozeman, Southwest Montana and Yellowstone National Park with the rest of the world.

BZN is owned and operated by the Gallatin Airport Authority.

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2018

Gallatin Airport Authority
Belgrade, MT

Prepared by:
Gallatin Airport Authority
Finance and Administration

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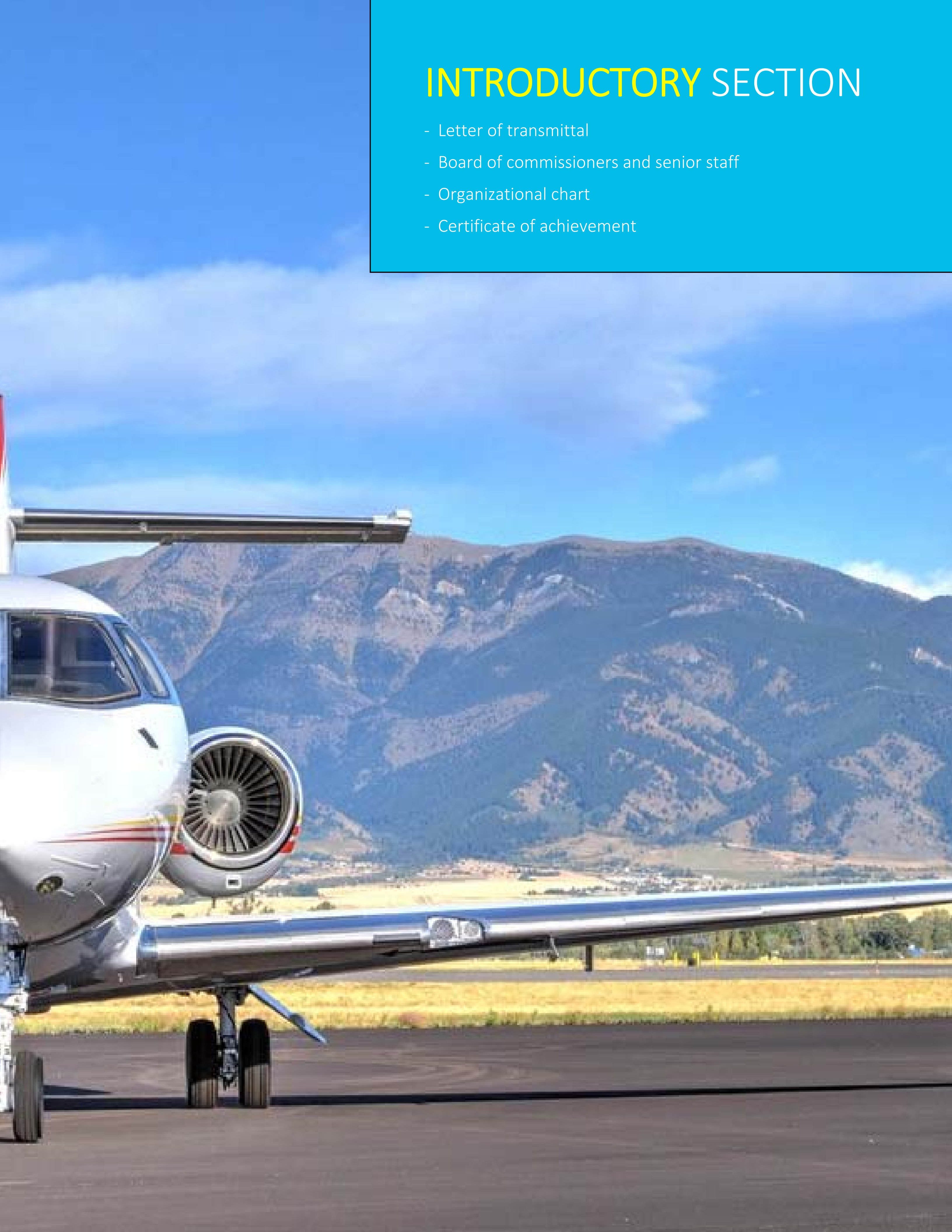


BZN Bozeman Yellowstone INTERNATIONAL AIRPORT

Gallatin Airport Authority · 850 Gallatin Field Road, Suite 6 · Belgrade, MT 59714

October 19, 2018

TO THE BOARD OF COMMISSIONERS

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Gallatin Airport Authority (Authority), for the year ended June 30, 2018.

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 positon, 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

Economic headwinds and proliferation of Ultra-Low Cost Carriers:

After seventeen straight profitable quarters, U.S. network airlines (Alaska/Virgin, American, Delta, United and Southwest) posted profits even as the two largest operating costs (labor and fuel) edged up. Demand for air travel outpaced operating costs as network airlines collectively kept capacity growth below the expansion of gross domestic product (GDP). Second quarter GDP for 2018 was up 4.2% while network carriers adjusted seat capacity 3%. After years of decline, passenger yield – the measure of the average fare paid per mile per passenger rose 2.3% year-over-year even as net profits decreased. Network carriers are concentrating on quality of revenue vs. quantity of passengers.

Ultra-low cost carriers (ULCCs) such as Allegiant, Frontier, Spirit, and Sun Country added capacity in excess of 12% last year. ULCCs now represent 7% of all domestic airline seats. This capacity increase had little impact on network airlines as ULCCs added capacity based on impulse-buy, the attractiveness of super low fares and less than daily service. ULCCs move airplanes around the country based on opportunity. If the opportunity doesn't materialize or meet their expectation, they exit the market quickly. ULCCs are not in business to build up a market, maintain a route structure or connect passengers; they serve point-to-point leisure markets chasing discretionary dollars.

Although there is currently little ULCCs/network airline overlap, Alaska, American, Delta and United all introduced a Basic Economy fares as a competitive response. This has been difficult because these airlines filled more than 82% of their seats and didn't have a lot of excess capacity to sell at discounted ULCC rates. Their main concern is that ULCCs will eventually morph into a much larger threat.

It's amazing given the pilot and mechanic shortages, increased energy and labor costs that the industry continued an upward trajectory. In our current climate, we do expect some sort of moderation or even a down cycle in the not too distant future.

State of the Region

Southwest Montana continues to see strong economic growth. Bozeman and Gallatin County remain the fastest growing city and county in the state (populations over 10,000), while unemployment has remained low at 2.3% in June 2018. Montana State University has seen significant enrollment growth with 4,138 more students in 2018 compared to 2010. In addition, both summer and winter tourism have seen strong growth with Big Sky Ski Resort and Yellowstone National Park setting record visitation.

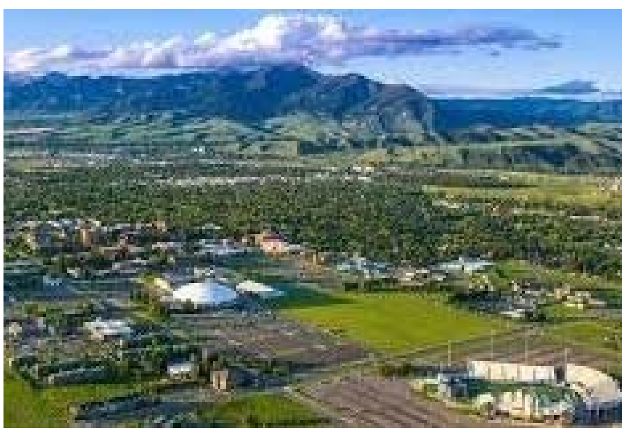
	2018	2017	2010	Change '17 to '18	Change '10 to '18
BZN total passengers	1,257,974	1,148,347	728,048	9.5%	72.8%
Yellowstone National Park visits	4,423,521	4,290,689	3,348,087	3.1%	32.1%
Montana State University enrollment	16,902	16,703	12,764	1.2%	32.4%
Bozeman population	47,500	45,250	37,284	5.0%	27.4%
Bozeman unemployment rate	2.3%	2.4%	5.4%	-4.2%	-57.4%
Gallatin County population	107,810	104,502	89,599	3.2%	20.3%

Bozeman, MT

Bozeman is called "the most livable place" for good reason. No matter what time of year, big skies and unending opportunities will greet you.

Yellowstone National Park

Experience the world's first national park. Marvel at a volcano's hidden power rising up in colorful hot springs, mudpots, and geysers. Explore mountains, forests, and lakes to watch wildlife and witness the drama of the natural world unfold.



Montana State University

Montana State University is as remarkable as its setting. Created as a land-grant institution, it is a welcoming, adventurous community of students, faculty and staff distinguished by its commitment to address the world's greatest challenges.

Big Sky

Big Sky is home to the Biggest Skiing in America® with over 5,800 acres of skiable terrain spread across four mountains, 4,350 vertical feet, and an award-winning Nordic trail system.

AIRPORT HIGHLIGHTS – FISCAL YEAR 2018

For the year, BZN handled 1,257,974 total passengers maintaining its status as Montana's busiest airport for the fourth consecutive year. For comparison, Billings is the second busiest airport in Montana at 878,451 passengers for FY 2018. BZN ended FY 2018 as the 108th 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 112th busiest in the nation and 8th busiest in the Northwest Region at the end of FY 2017.

Tourism and locally generated traffic continue to contribute nearly equally to the overall increase in passengers. Significant factors impacting passenger traffic during FY 2018 adding the 7th, 8th and 9th year-round daily destinations, Portland (Alaska), San Francisco (United) and Los Angeles (United). In addition, several other markets saw significant increases in including Dallas/Ft. Worth (American), Chicago O'Hare (American and United) and New York/Newark (United). Finally, American added summer seasonal Los Angeles service in June 2018. Runway construction in May 2018 resulted in a 6.1% passenger decline for the month, within the five to ten percent reduction expected. Continuing into FY 2019, American is expanding holiday seasonal service to Los Angeles and JetBlue will add twice weekly summer/winter seasonal service to Long Beach, CA. In addition, Frontier has re-established year-round service to Denver. The strong local economy, continued tourism demand and projected available seats for FY 2019 are expected to result in FY 2019 passenger growth at approximately 10%.

Air Service

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

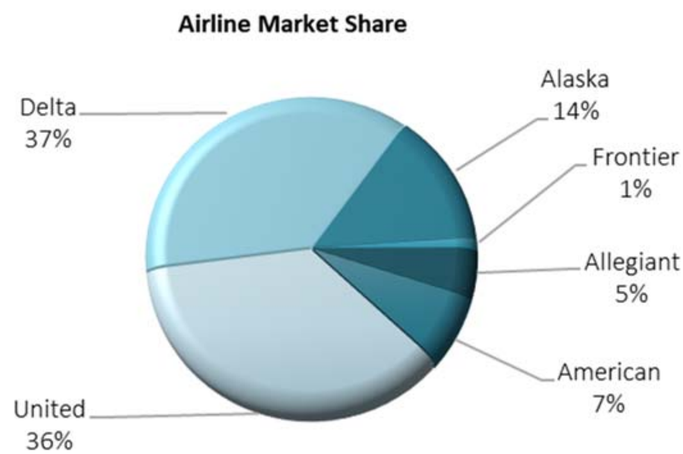
Non-Stop Destinations

AIRPORT HIGHLIGHTS – FISCAL YEAR 2018 (continued)

The following table shows major air traffic activities during the fiscal years ended June 30, 2018 and 2017.

	2018	2017	Change
Total enplaned and deplaned passengers	1,257,974	1,148,347	9.5%
Enplaned passengers	628,533	573,767	9.5%
Deplaned passengers	629,441	574,580	9.5%
Aircraft operations	78,319	76,943	1.8%
Available departing seats	757,841	675,270	12.2%
Load factor average	82.7%	85.1%	-2.8%

The following chart shows airline market share at BZN for the fiscal years ended June 30, 2018.



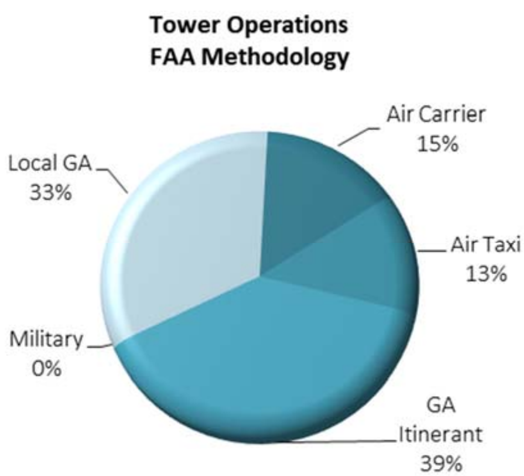
Passenger Traffic

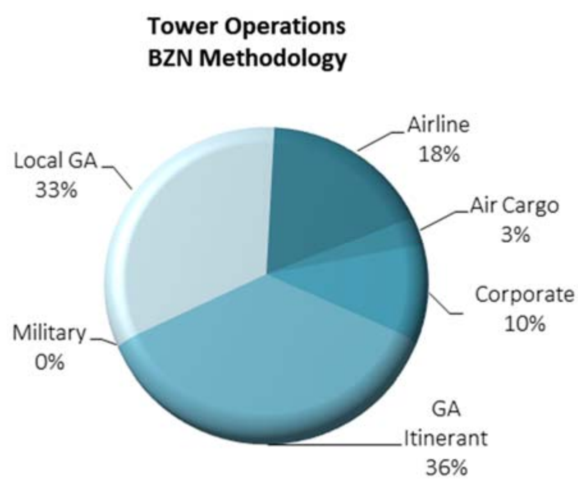
FY 2018 passenger traffic at BZN increased 9.5% to 1,257,974 passengers. Available seats increased 12.2% due to a combination of increased flight activity and increased average seats per aircraft. Load factor for FY2018 was 82.7%. Weekly average departures increased 8.1% from 125 in FY 2017 to nearly 135 in FY 2018. Average seats per aircraft increased 3.8% from 105 in FY 2017 to 109 in FY 2018. American Airlines had the largest traffic increase primarily due to increased Dallas/Ft. Worth service and new Chicago and Los Angeles service (141.7%). In addition, Delta and United had significant traffic increases, 9.0% and 8.2%, respectively. Frontier's move to seasonal service and primarily origin and destination traffic only to Denver resulted in an enplanement decrease of 43.3%, however this is expected to be reversed in FY 2019. Allegiant traffic was up 2.5%. Finally, Alaska traffic was down 3.2% primarily due to pilot shortage issues at Horizon Air.

AIRPORT HIGHLIGHTS – FISCAL YEAR 2018 (continued)

Tower Operations

Tower operations (landing or takeoff) increased 1.8% during FY 2018. Air Carrier operations increased 10.5% and Air Taxi operations increased 9.2%. General Aviation Itinerant operations were down 2.6%. Military operations decreased 7.7% but only 23 total operations due to the minimal military use of BZN. Overall Itinerant operations (Air Carrier, Air Taxi, General Aviation Itinerant and Military) were up 2.2%. BZN further clarifies Itinerant activity to Airline, Cargo, Corporate and General Aviation Itinerant. Local general aviation operations were up 1.06%. BZN continues to see peak day operations of over 400 and peak hour operations that exceeded 60. These peak periods in addition to the mix of aircraft and varying approach speeds results in many periods where BZN operated at capacity. This was rectified in November 2018 when BZN opened a new parallel paved runway to separate slower piston powered aircraft from the faster jet aircraft.





Cargo

Cargo revenues consists of landing fees from FedEx, UPS and the airlines, and ground rent paid by cargo operators for their facilities. As shown below, total cargo, express and air mail increased 5.0% to 5,665,211 lbs. FedEx moved 2,439,286 lbs. of cargo by air and transferred 1,629,800 lbs. by truck at its airport facility.

	Pounds Moved		
	2018	2017	Change
FedEx	4,069,086	3,802,143	7.0%
UPS	1,157,777	1,172,146	-1.2%
Airlines	438,348	420,827	4.2%
Total	5,665,211	5,395,116	5.0%

Customs and Border Protection

The United States Customs and Border Protection facility in BZN handled 130 international arrivals during FY 2018, compared to 134 in FY 2017. Unlike locations at Helena, Great Falls and Kalispell, this location is operated as a user fee facility with approximately 91% of the operating cost paid for by the international arriving aircraft and the remaining 9% split three ways between the Gallatin Airport Authority, the Yellowstone Club and Signature Flight Support.

AIRPORT HIGHLIGHTS – FISCAL YEAR 2018 (continued)

General Aviation

General Aviation activity was down 1% to 56,350, this was primarily due to runway construction in May that resulted in General Aviation Itinerant and local operations declining 5.9%. General Aviation operations account for approximately 72% of all airport tower operations. Corporate landings (aircraft 12,500 lbs. and above) were up 19.4% to 4,095. Gallatin College continues to grow at BZN with Summit Aviation now operating 20 aircraft in conjunction with the aviation instruction program and charter operation. In addition, Ridgeline Aviation has expanded their flight school program. While General Aviation contributes 72% of the airport operations, it accounted for only 5.8% of the Airport Operating Revenue during FY 2018.

General Aviation Hangar Development

Construction of one commercial hangar on taxi-lane “U” and two non-commercial hangars on taxi-lane “V” were completed during the fiscal year. In addition, one commercial hangar on the east ramp, two commercial hangars on taxi-lane “U” and one non-commercial hangar on taxi-lane “V” are under construction.

Central Valley Fire District

The Gallatin Airport Authority approved a land lease and inter-local agreement with Central Valley Fire District for construction of a new Fire Station on Airport land. Construction on the Fire Station located at the intersection of Airway Blvd. and Wings Way began in the spring of 2018 and is expected to be completed by summer 2019.

Fuel Flowage

Total Fuel flowage for the year increased 1.9% to 9,482,008 gallons. Of this total, Jet A (airline) decreased 10.3% to 6,029,571 gallons, Jet A (non-airline) fuel flowage increased 31.9% to 3,319,263 gallons, and AvGas decreased 5.0% to 131,854 gallons.

Land Acquisition

The Gallatin Airport Authority continually evaluates potential land acquisitions as opportunities arise. Two parcels of less than 7 acres are currently being considered.

Requests for Proposals (RFP) and Requests for Qualifications (RFQ)

Ground Transportation Concession - A request for proposals was issued for on-airport ground transportation concession and was awarded to Karst Stage for a period five years beginning October 2018.

AIRPORT HIGHLIGHTS – FISCAL YEAR 2018 (continued)

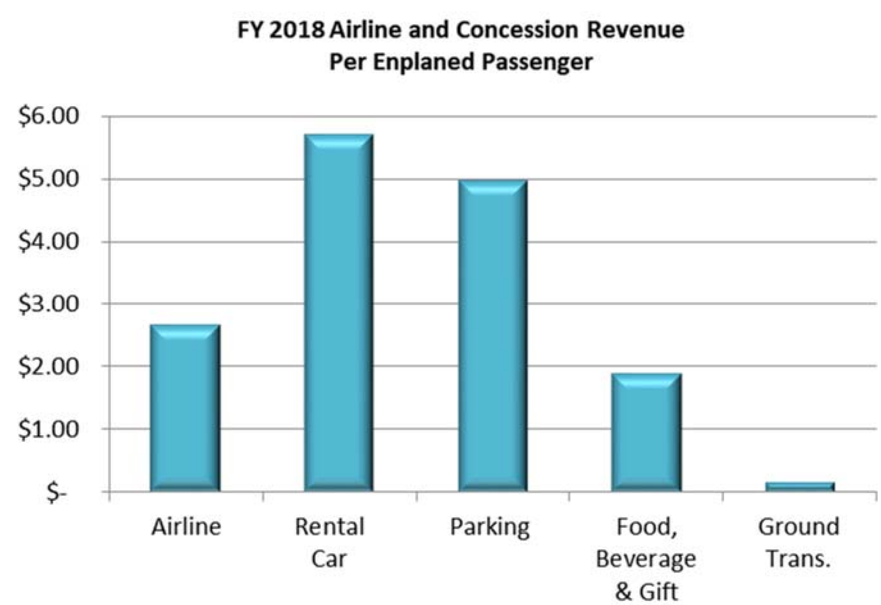
Financial

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 in FY 2018 remained nearly flat at $2.67.

	2018	2017
Airline cost	$ 1,673,898	$ 1,518,773
Enplanements scheduled	626,736	571,531
Cost per enplaned passenger	$ 2.67	$ 2.66

Airline and Concession revenues are variable dependent upon passenger enplanements. These revenues increased from $14.72 per enplanement in FY 2017 to $15.44 per enplanement in FY 2018. Airline revenues account for $2.67 per enplanement or 17.3%; rental car and parking concessions account for $10.73 per enplanement or 69.4%; food, beverage and gift concessions account for $1.91 per enplanement or 12.3%; and ground transportation accounts for $.13 per enplanement or .9%. In FY 2018, total enplanements of 628,533 generated airline and concession revenues of $9,685,959; this compares to FY 2017 with 573,767 total enplanements generating $8,444,360.



CAPITAL AND LONG-TERM PLANNING

The Gallatin Airport Authority has a comprehensive 15-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. The Gallatin Airport Authority invested $23.5 million in Capital Improvements during FY 2018, and over the next four years the Gallatin Airport Authority expects to invest over $55 million in capital improvements. A summary of major projects completed in FY 2018 and those planned for FY 2019 – 2022 follows.

		Funding				
Project	Est. Cost	Authority	AIP Entitlements	AIP Discretionary	CFC	PFC's and TSA Grant
Runway 11/29 (paved) construction	7,137,977	916,825	6,221,152	-	-	-
Runways and taxiway pavement rehabilitation	13,656,639	1,365,665	4,764,216	7,526,758	-	
Multi-use parking garage	33,070,179	4,960,527	-	-	28,109,652	-
Terminal area and concourse expansion	31,230,000	2,219,137	9,631,507	2,081,376	-	17,297,980
General aviation area improvements	3,545,419	1,853,731	1,691,688	-	-	-

Runway 11-29 (paved) Construction - FY 2018

Construction of runway 11/29 was completed in November 2017 at a cost of $7,137,977. The runway is 5,050' x 75' and constructed to B-II small aircraft standards. The new runway has increased safety and efficiency of air traffic control at BZN through separation of smaller and slower aircraft on runway 11/29 from faster and larger aircraft on the main runway 12/30.

Main Runway 12/30, Runway 3/21 and Main Taxiway Pavement Rehabilitation - FY 2018

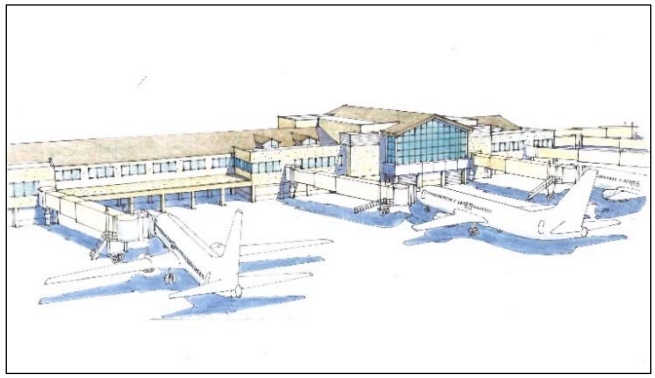
Runways 12/30, 3/21 and phase II of our Main Taxiways were all rehabilitated in FY 2018. The main taxiway system and crosswind runway 3/21 rehabilitation was completed in September 2018 at a cost of $7,528,133. Runway 12/30 was rehabilitated between April 30, 2018 and May 19, 2018 at a cost of $6,128,506.

Multi-use Parking Garage - FY 2018 & 2019

The Authority began construction of a multi-use parking garage for rental cars and pay parking in December 2017. It is anticipated that approximately 90% of the 1,100 stall four level fully covered parking garage will be for rental cars and the remaining 10% for pay parking. The rental car portion will be reimbursed through Customer Facility Charges (CFC) at $3.00 per rental car day on rental car contracts. The pay parking portion will be funded by the Authority. This project is expected to be completed by June 1, 2019 at a cost of $30,952,448.

CAPITAL AND LONG-TERM PLANNING (continued)

Terminal Area Improvements and Concourse Expansion - FY 2018–2022



The Authority is replacing our three oldest passenger boarding bridges and expanding the concrete apron at our five oldest gates in FY 2019 at a cost $3.1 million. In addition, the continued strong growth at BZN in passenger enplanements, peak hour gate use, and peak hour baggage handling capacity had resulted in a need for a terminal concourse expansion and baggage system improvements. The Gallatin Airport Authority is currently designing a 4-gate concourse expansion to meet these needs. Depending upon design progress and the bid environment, construction could begin as early as summer 2019 with a completion date by summer 2021. We are currently budgeting $28,130,000 for this project including associated apron, boarding bridges and baggage system improvement. We anticipate funding for this project will be through internally generated funds with reimbursement through AIP Entitlements, Passenger Facility Charge (PFC) collection and possibly a TSA baggage system grant if eligible.

General Aviation Area Improvements - FY 2019–2022

Commercial General Aviation activities continue to grow and expand at BZN. To facilitate and support this growth, BZN has budgeted 3,545,419 to re-align the General Aviation Front line and re-construct the roadway serving this area, construct additional taxiways within the southeast hangar area and provide infrastructure on the north side to enable development adjacent to the new parallel taxiway serving our new runway, 11/29.

OTHER INFORMATION

Independent Audit

For the fiscal year ended June 30, 2018, 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 Uniform Guidance 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.

OTHER INFORMATION (continued)

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.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2017.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 35 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.	Scott Humphrey, A.A.E.	Troy Watling, CPA, CM
Airport Director	Deputy Airport Director	Assistant Director, Finance

BOARD OF COMMISSIONERS

Carl Lehrkind, IV
Chair

Kendall Switzer
Vice Chair

Karen Stelmak
Secretary

Kevin Kelleher
Member

Ted Mathis
Member

SENIOR STAFF

Brian Sprenger, A.A.E. .... Airport Director

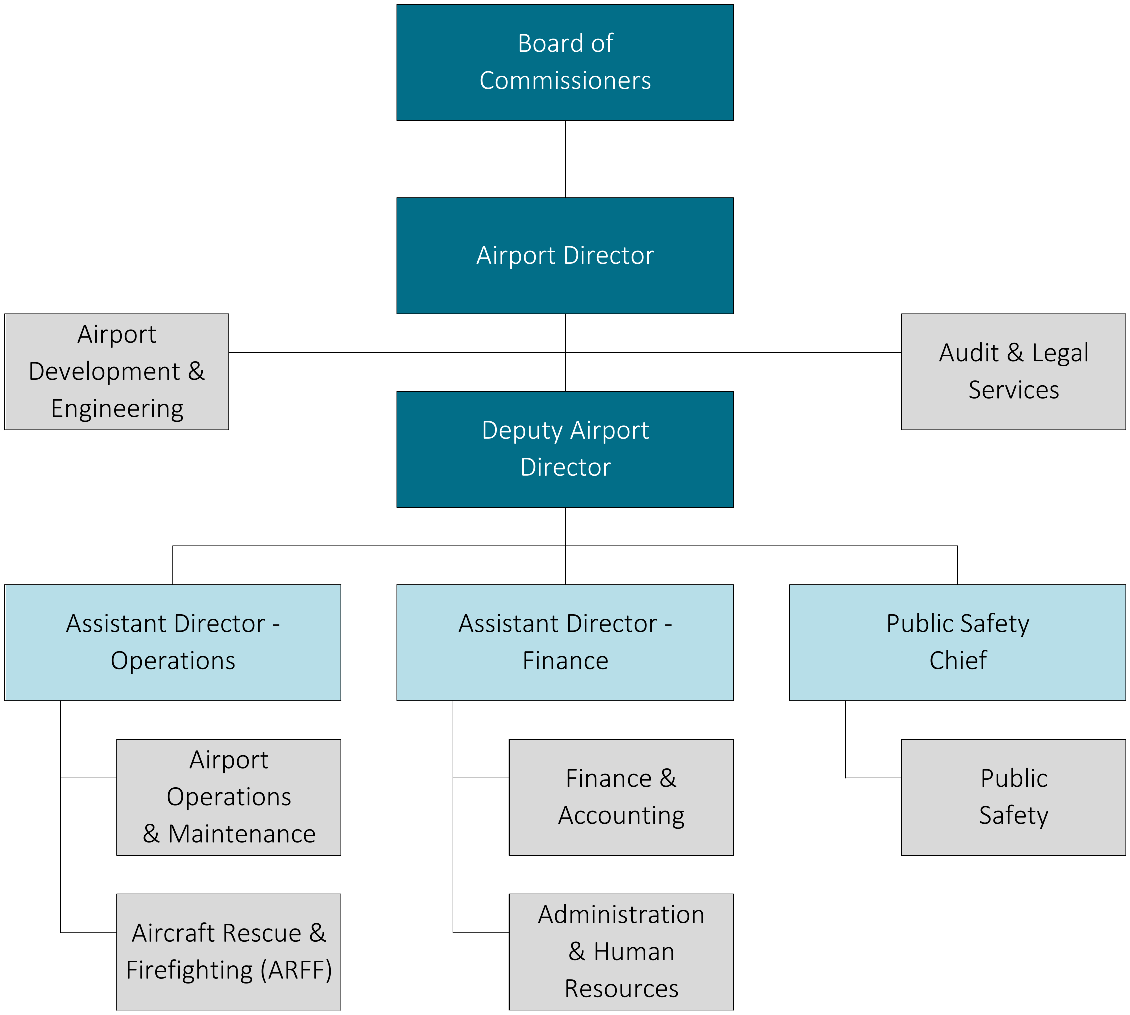
Scott Humphrey, A.A.E. .... Deputy Airport Director

Paul Schneider, C.M. .... Assistant Director - Operations

Troy Watling, CPA, CM .... Assistant Director - Finance

Bill Dove .... Public Safety Chief

Organizational Chart



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Gallatin Airport Authority
Montana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill
Executive Director/CEO


Elevator
Restrooms
OPEN
Gift Shop
Restaurant
Lounge

FINANCIAL SECTION

- Independent auditor's report
- Management’s discussion and analysis
- Basic financial statements:
  - Statement of net position
  - Statement of revenues, expenses, and changes in net position
  - Statement of cash flows
  - Notes to the financial statements
  - Required supplementary information – pension schedules

holmes & turner
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

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BOZEMAN, MONTANA 59715
(406) 587-4265
FAX (406) 586-3111

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, including PFC quarterly reports, of Gallatin Airport Authority (Authority), as of and for the year ended June 30, 2018, 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, 2018 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 27-35 and 57-61, 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of passenger facility charges collected and expended is required by the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration and is not a required part of the 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.

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 October 19, 2018 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

Bozeman, Montana
October 19, 2018

The following discussion and analysis provides an overview of the Gallatin Airport Authority's (Authority) financial statements for the fiscal year ended June 30, 2018 with selected comparative information for the fiscal year ended June 30, 2017. This discussion and analysis has been prepared by management and should be read in conjunction with the basic financial statements.

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 expenses are recognized when incurred. Capital assets are capitalized and depreciated over their useful lives, except for land and assets held for future use. 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.

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.

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.

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 is included at the bottom of this statement to assist in the understanding of the difference between operating income and cash flows from operating activities.

The basic financial statements also include the 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.

Certain fiscal year 2017 balances have been reclassified to conform to the fiscal year 2018 presentation.

FINANCIAL HIGHLIGHTS

Statement of Net Position

The following table represents a condensed summary of the Authority's statement of net position at June 30, 2018 and 2017:

	Dollars in 000's	
	2018	2017
Current assets	$ 18,529	$ 26,305
Restricted assets - noncurrent	7,216	5,846
Capital assets, net - noncurrent	117,028	95,835
Total assets	142,773	127,986
Deferred outflows of resources	673	464
Current liabilities	4,871	3,139
Noncurrent liabilities	15,014	15,257
Total liabilities	19,885	18,396
Deferred inflows of resources	23	8
Net investment in capital assets	104,192	82,435
Restricted	7,217	5,847
Unrestricted	12,129	21,764
Total net position	$ 123,538	$ 110,046

Total assets were up by 11.6% from FY 2017 to FY 2018. Current assets decreased by 29.6% mainly due to cash outlays on capital projects. Noncurrent assets increased by 22.2% with the FY 2018 capital additions offset by depreciation.

Current liabilities increased by 55.2% from FY 2017 to FY 2018. The increase was primarily the result of higher construction payables at the end of FY 2018.

Noncurrent liabilities decreased by 1.6% from FY 2017 to FY 2018. The decrease resulted from reduction in bond principal with smaller increase in net pension liability.

Changes in deferred outflows of resources and deferred inflows of resources relate to the Authority's retirement plan with State of Montana's Public Employees' Retirement System. Refer to note 8 in the notes to the financial statements for details.

Total net position improved by 12.3% from FY 2017 to FY 2018. A summary of the changes in net position follows.

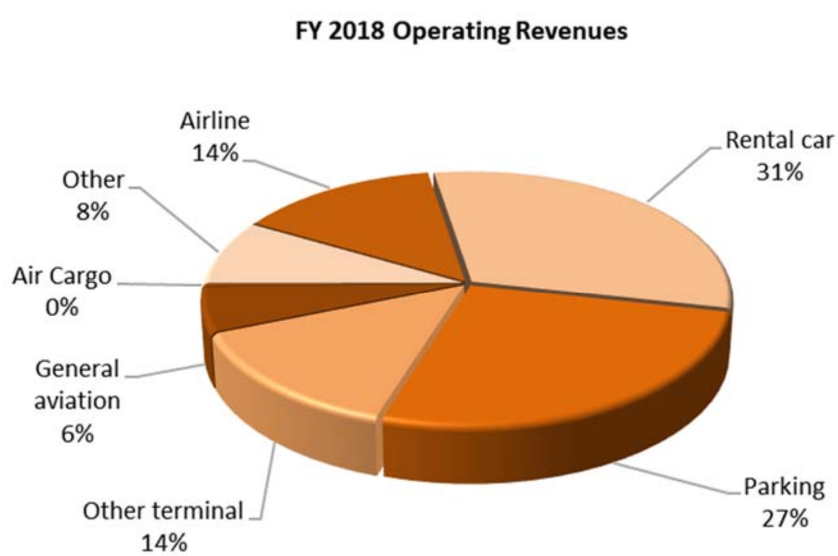
Statement of Revenues, Expenses, and Change in Net Position

The following table represents a condensed summary of the statement of revenues, expenses and changes in net position for the years ended June 30, 2018 and 2017:

	Dollars in 000's	
	2018	2017
Operating revenues	$ 11,888	$ 10,498
Operating expenses, excluding depreciation	(6,120)	(5,186)
Depreciation	(4,225)	(4,182)
Operating income	1,543	1,130
Net nonoperating revenues (expenses)	3,973	2,839
Capital contributions	7,976	6,866
Change in net position	13,492	10,835
Net position - beginning	110,046	99,211
Net position - ending	$ 123,538	$ 110,046

Operating Revenues

The following charts illustrate the principal revenue sources and their percentage of total operating revenues for the year ended June 30, 2018.



Operating Revenues (continued)

The following table shows the operating revenues for the years ended June 30, 2018 and 2017, and the percentage change.

	Dollars in 000's		
	2018	2017	Change
Airline	$ 1,674	$ 1,519	10.2%
Rental car	3,685	3,218	14.5%
Parking	3,150	2,753	14.4%
Other terminal	1,655	1,466	12.9%
General aviation	687	617	11.3%
Air Cargo	43	43	0.0%
Other	994	882	12.7%
Total operating revenues	$ 11,888	$ 10,498	13.2%

Airline revenues rose by 10.2% and consist primarily of landing fees and airline terminal rents. Landing fee revenues increased by 13.0% to $704,699. Landing fee rates decreased by 2.0% but air carrier landings increased by 10.5%. Airline terminal rent increased by 8.3% to $886,580.

Rental car revenues increased by 14.5% and includes on and off airport concessions fees and rents. The major contributor was on-airport rental car concessions which increased by 16.9% to $3,538,886. Transaction days (the number of days a vehicle is rented) increased by 9.2% to 553,160 days in FY 2018. The average cost-per-day of an on-airport rental car increased by 9.6% to $64.23. 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 14.4% and consists primarily of parking concessions revenues which increased by 14.4% to $3,133,527. The parking revenues are net of parking management fees which increased by 8.2% to $410,875 in FY 2018. The Authority has contracted with Republic Parking to operate the pay parking lot under a five year agreement ending September 2021.

Other terminal concessions and rents revenues rose by 12.9% 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 16.1% to $1,184,955 due to passenger traffic and the increase traffic at the second food and beverage facility in the concourse. The Authority has contracted with Sharbert Enterprises to operate terminal food, beverage, and gift concessions under a seven year agreement ending May 2022.

Operating Revenues (continued)

General aviation revenues increased by 11.3 %. General aviation landing fees increased by 24.4% to $189,462. Fuel flowage fees increased by 15.7% to $179,140. Tie down fees increased by 6.9% to $41,637. The growth in these areas can be attributed primarily to increases in general aviation operations.

Air cargo revenues rose slightly to $43,055.

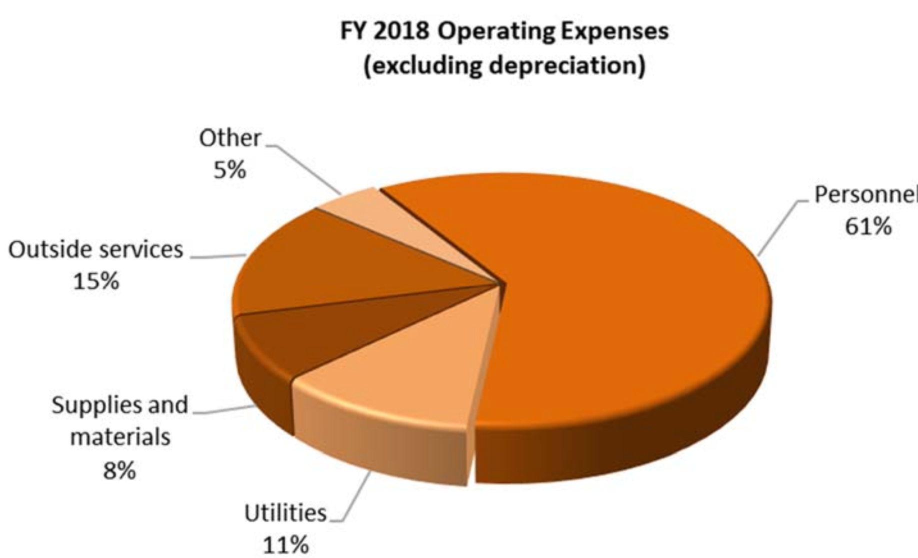
Other operating revenues increased by 12.7% and consist of revenues from the consolidated rental car facility, the customs facility, the law enforcement reimbursement program, and other land/building rents. The majority of the increase is due to activity at the consolidated rental car and customs facilities.

- Consolidated rental car facility revenues increased by 8.1% to $433,505. The majority of these revenues is from the operating portion of the customer facility charges which totaled $414,897 in FY 2018. The increase is directly related to the increase in rental car activity.

- Customs facility revenues remained nearly flat at $134,757 in FY 2018 with consistent 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 year ended June 30, 2018.



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 2018 operating expenses (excluding depreciation) increased 18.0% to $6,119,690.

The following table shows the operating expenses for the years ended June 30, 2018 and 2017, and the percentage change.

	Dollars in 000's		
	2018	2017	Change
Personnel	$ 3,712	$ 3,237	14.7%
Utilities	682	629	8.4%
Supplies and materials	497	535	-7.1%
Outside services	936	509	83.9%
Insurance	99	98	1.0%
Other	194	178	9.0%
	6,120	5,186	18.0%
Depreciation	4,225	4,182	1.0%
Total operating expenses	$ 10,345	$ 9,368	10.4%

Personnel expenses increased by 14.7%. The increase is due to the addition of four full-time positions, annual wage adjustments, and employee benefit costs.

Utilities expense increased by 8.4%. The increase is attributed primarily to weather changes.

Supplies and materials expenses decreased by 7.1%. The decrease is due an increase in use of outside contractors and procurement efficiencies.

Outside services expenses increased by 83.9% due primarily to several large repairs and noncapital projects during the year requiring outside expertise and snow removal equipment rental.

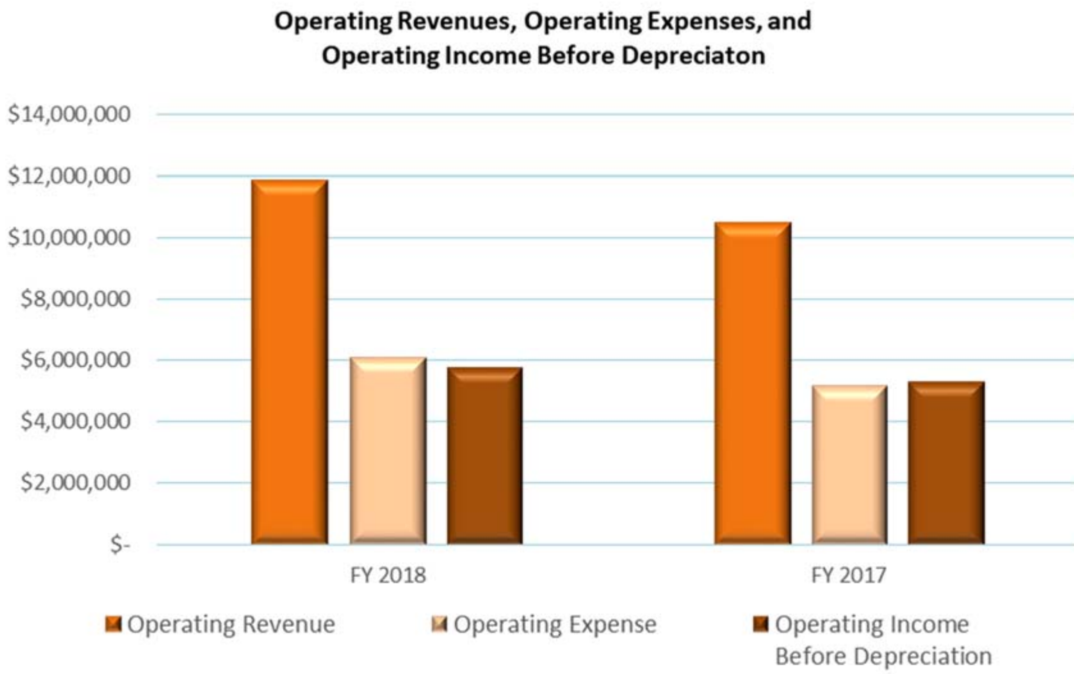
Insurance expense increased slightly with minor changes in policies and rates.

Other expense, consisting primarily of overhead costs, increased by 9.0%. The increase is due to additional IT professional services and training programs.

Depreciation expense increased by 1.0% and is attributable to new depreciable assets placed in service during FY 2018.

Operating Income (before depreciation)

FY 2018 operating income before depreciation was $5,768,147, up 8.6% compared to FY 2017. The increase in operating expenses of $933,166 was well below the growth in operating revenue of 1,389,899, as reflected in the chart below.



Nonoperating Revenues and Capital Contributions

Nonoperating revenues increased by 32.5%, and consist of passenger facility charges, customer facility charges, interest income and non-capital grants.

Passenger facility charges (PFC) revenues increased by 10.9%. The increase is directly attributable to passenger traffic growth.

Customer facility charges, capital (CFC) revenues increased by 76.7%. The increase is primarily due to rental car activity and a rate increase from $2 to $3.50 per transaction day instated June 1, 2017.

Interest income increased by 45.7% primarily due to market conditions.

Non-capital grants increased by 12.2% and consists of funds from the State of Montana related to the Public Employees Retirement System and pavement preservation. See note 8 in the notes to the financial statements for more information regarding the Public Employees Retirement System.

Capital contributions increased by 16.2% to $7,975,484 in FY 2018, and consists of Airport Improvement Program (AIP) entitlements and discretionary funds.

Nonoperating Expenses

Nonoperating expenses decreased by 3.0%, and consist mainly of bond interest payments.

Statement of Cash Flows

The following table represents a condensed summary of the statement of cash flows for the fiscal years ended June 30, 2018 and 2017:

	Dollars in 000's	
	2018	2017
Cash provided by operating activities	$ 11,646	$ 10,849
Cash used by operating activities	(6,125)	(5,134)
Cash from operating activities	5,521	5,715
Cash from noncapital financing activities	17	7
Cash from capital and related financing activities	(13,253)	(4,219)
Cash from investing activities	91	62
Change in cash and cash equivalents	(7,624)	1,565
Cash and cash equivalents, beginning of year	29,191	27,626
Cash and cash equivalents, end of year	$ 21,567	$ 29,191

Cash and cash equivalents decreased by 26.1% primarily due to the purchase of capital assets. Cash from operating activities was down 3.4% which related to the increase in receivables at year-end.

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.

Notes 1 and 2 in the notes to the financial statements provides additional details regarding cash and cash equivalents.

CAPITAL PROJECTS

The Authority expended $23,508,082 on capital projects in FY 2018 compared to $11,756,284 in FY 2017. Major capital projects activity in FY 2018 included parking garage construction, parallel runway 11-29 construction, runway 12-30 pavement rehabilitation, apron expansion, taxiway pavement rehabilitation, pay parking lot expansion, snow removal equipment purchased, and small terminal projects.

Note 4 in the notes to the financial statements and the letter of transmittal provide further details regarding capital asset activities.

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.

Statement of Net Position

June 30, 2018

Current Assets	
Cash and cash equivalents	$ 14,842,845
Accounts receivable	3,658,160
Prepaid expenses	27,752
	18,528,757
Noncurrent Assets	
Cash and cash equivalents - restricted	6,723,661
Accounts receivable - restricted	493,725
Nondepreciable capital assets	49,597,645
Depreciable capital assets, net	67,429,677
	124,244,708
Total Assets	142,773,465
Deferred Outflow of Resources	
Montana Public Employees Retirement System	672,633
Current Liabilities	
Accounts payable	3,840,738
Deposits	96,667
Accrued payroll liabilities	278,440
Prepayments - rents	70,516
Current portion of 2009 revenue bonds payable	585,000
	4,871,361
Noncurrent Liabilities	
Net pension liability	2,763,602
2009 revenue bonds payable, less current portion	12,250,000
	15,013,602
Total Liabilities	19,884,963
Deferred Inflow of Resources	
Montana Public Employees Retirement System	22,561
Net Position	
Net investment in capital assets	104,192,322
Restricted - capital projects and debt service	7,072,560
Restricted - customs	144,826
Unrestricted	12,128,866
Total Net Position	**$ 123,538,574**

See accompanying notes to financial statements

Operating Revenues	
Airline	$ 1,673,898
Rental car concessions	3,684,537
Parking	3,149,527
Other terminal concessions and rents	1,654,633
General aviation	687,426
Air cargo	43,055
Other	994,761
	11,887,837
Operating Expenses	
Personnel	3,711,569
Utilities	681,892
Supplies and materials	496,872
Outside services	935,766
Insurance	99,264
Other	194,327
	6,119,690
Operating income before depreciation	5,768,147
Depreciation expense	4,224,905
Operating Income	1,543,242
Nonoperating Revenues (Expenses)	
Passenger facility charges	2,462,825
Customer facility charges	1,936,069
Interest income	91,008
Other nonoperating revenue	58,259
Other nonoperating expenses	(350)
Interest expense	(574,386)
	3,973,425
Capital Contributions	
Federal grants	7,975,484
Change in Net Position	**13,492,151**
Net position, beginning of year	110,046,423
Net Position, End of Year	**$ 123,538,574**

See accompanying notes to financial statements

Statement of Cash Flows

Year Ended June 30, 2018

Cash Flows From Operating Activities		
Operating cash receipts from customers	$	11,646,161
Cash payments to suppliers for goods and services		(2,359,738)
Cash payments to employees for services		(3,765,492)
		5,520,931
Cash Flows From Noncapital Financing Activities		
Nonoperating grant receipts		16,500
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets		(23,508,082)
Federal grant receipts		7,055,136
Passenger facility charge receipts		2,402,884
Customer facility charge receipts		1,936,069
Principal payment on capital debt		(565,000)
Bond interest payments		(574,386)
		(13,253,379)
Cash Flows from Investing Activities		
Interest received		91,008
Net Decrease In Cash and Cash Equivalents		**(7,624,940)**
Cash and cash equivalents, beginning of year		29,191,446
Cash and Cash Equivalents, End of Year	**$**	**21,566,506**

Reconciliation of operating income to cash flows from operating activities		
Operating income	$	1,543,242
Adjustments to reconcile operating income to cash flows from operating activities:		
Depreciation		4,224,905
Changes in current assets and liabilities:		
Receivables, customers		(219,499)
Prepaid expenses		(19,619)
Accounts payable		68,002
Deposits		(4,000)
Prepayments - rents		(18,177)
Accrued payroll liabilities		(53,923)
Cash flows from operating activities	**$**	**5,520,931**

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.

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).

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined annually, and requires the use of valuation techniques, a specific method or combination of methods using one or more of three approaches: market, cost or income approach.

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 2018.

Capital Assets

The Authority's capital assets are capitalized at historical cost. Contributions of capital assets are recorded at acquisition value. 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.

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

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.

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

The composition of cash and investments on June 30, 2018 was as follows:

	Cost	Fair Value
Unrestricted		
Operating account	$ 8,698,498	$ 8,698,498
Capital account	6,144,347	6,144,347
	14,842,845	14,842,845
Restricted		
Customs	144,826	144,826
Debt service account	190,029	190,029
PFC reserve account	3,626,500	3,626,500
Renewal and replacement reserve account (STIP)	250,000	250,000
Operating reserve (STIP)	1,368,186	1,368,186
Debt service reserve account (STIP)	1,144,120	1,144,120
	6,723,661	6,723,661
Total cash and cash equivalents	$ 21,566,506	$ 21,566,506

Custodial Credit Risk – Deposits

At June 30, 2018, the carrying amount of the Authority's deposits in local banks was $21,632,140. 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.

Investments at Fair Value

The Authority voluntarily participates in the Short Term Investment Program (STIP) administered by the Montana Board of Investments (MBOI). 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, 2018 was $2,762,306. This investment in STIP is considered a cash equivalent.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

A local government's STIP ownership is represented by shares, the price of which are fixed at $1.00 per share, and participants may buy or sell shares with one business days' notice. STIP administrative expenses are charged daily against the STIP income, which is distributed on the first calendar day of each month. Shareholders have the option to automatically reinvest their distribution income in additional shares.

The STIP is not registered with the Securities and Exchange Commission. STIP is not FDIC-insured or otherwise insured or guaranteed by the federal government, the State of Montana, the MBOI or any other entity against investment losses, and there is no guaranteed rate of return on funds invested in STIP shares. The MBOI maintains a reserve fund to offset possible losses and limit fluctuations in STIP's valuation.

Information on investments held in the STIP can be found in the Annual Report on the MBOI website at http://investmentmt.com/AnnualReportsAudits.

Risks Related to STIP

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, 2018 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.

Security Lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year 2018 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2018 financial statements is available online at the Montana Board of Investments' website.

NOTE 3. ACCOUNTS RECEIVABLE

The composition of accounts receivable on June 30, 2018 was as follows:

Unrestricted	
Trade accounts receivable, net	$ 1,102,575
Grants receivable	2,555,585
	3,658,160
Restricted	
Passenger facility charges receivable	475,804
Customs receivable	17,921
	493,725
Total accounts receivable	$ 4,151,885

NOTE 4. CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2018:

	June 30, 2017	Additions	Reductions	June 30, 2018
Nondepreciable capital assets				
Land	$ 12,252,840	$ -	$ -	$ 12,252,840
Construction in progress *	12,368,713	25,170,227	(194,135)	37,344,805
	24,621,553	25,170,227	(194,135)	49,597,645
Depreciable capital assets				
Runways & improvements	46,136,302	50,148	-	46,186,450
Buildings & equipment	77,052,087	313,860	(9,000)	77,356,947
Intangibles	460,840	77,307	-	538,147
	123,649,229	441,315	(9,000)	124,081,544
Accumulated depreciation				
Runways & improvements	28,761,304	1,856,004	-	30,617,308
Buildings & equipment	23,497,891	2,343,927	(9,000)	25,832,818
Intangibles	176,766	24,975	-	201,741
	52,435,961	4,224,906	(9,000)	56,651,867
Depreciable capital assets, net	71,213,268	(3,783,591)	-	67,429,677
Total capital assets, net	$ 95,834,821	$ 21,386,636	$ (194,135)	$ 117,027,322

* Construction in progress at June 30, 2018 consists mainly of costs associated with parking garage construction, runway 12-30 rehabilitation, runway 11-29 construction, taxiway rehabilitation, and parking lot expansion.

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

The following is a summary of long-term liabilities activity for the year ended June 30, 2018:

	June 30, 2017	Additions	Reductions	June 30, 2018	Current Portion
Revenue bonds	$ 13,400,000	$ -	$ (565,000)	$ 12,835,000	$ 585,000
Net pension liability	2,422,514	341,088	-	2,763,602	-
Totals	$ 15,822,514	$ 341,088	$ (565,000)	$ 15,598,602	$ 585,000

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	Principal and Interest
2019	585,000	3.500%	555,176	1,140,176
2020	605,000	3.625%	534,701	1,139,701
2021	630,000	3.750%	512,770	1,142,770
2022	650,000	3.850%	489,145	1,139,145
2023	680,000	3.950%	464,120	1,144,120
2024-2028	3,835,000	4.000-4.375%	1,875,750	5,710,750
2029-2033	4,760,000	4.375-4.700%	944,693	5,704,693
2034	1,090,000	4.700%	51,230	1,141,230
	$ 12,835,000		$ 5,427,585	$ 18,262,585

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). Employers are required to record and report their proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of resources associated with pensions.

Net Pension Liability

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2017, was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures. The roll forward procedures uses a calculation that adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The state of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as special funding. Those employers who received special funding are counties; cities and towns; school districts and high schools; and other governmental agencies.

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Per Montana law, state agencies and universities paid their own additional contributions. These employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions. The state of Montana, as the non-employer contributing entity, also paid to the Plan coal tax contributions that are not accounted for as special funding for all participating employers.

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2017, and 2016, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of $2,763,602 and the employer's proportionate share was 0.1419 percent.

As of Measurement Date	NPL as of 6/30/2017	NPL as of 6/30/2016	Percent of Collective NPL as of 6/30/2017	Percent of Collective NPL as of 6/30/2016	Changes in Percent of Collective NPL
Employer's proportionate share	$ 2,763,602	$ 2,422,514	0.1419%	0.1422%	-0.0003%
State of Montana proportionate share associated with employer	41,740	29,600	0.2127%	0.1817%	0.0310%
Total	$ 2,805,342	$ 2,452,114	0.3546%	0.3240%	0.0307%

Changes in actuarial assumptions and methods:
Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased the rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the system. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.5 %.

Changes in benefit terms:
Effective July 1, 2017, the following benefit changes were used:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL.

Pension Expense

As of Measurement Date	Pension Expense as of 6/30/2017
Employer's proportionate share	$ 314,745
Grant revenue - State of Montana proportionate share for employer	2,225
Grant revenue - State of Montana Coal Tax for employer	39,534
Total	$ 356,504

At June 30, 2017, the employer recognized $314,745 for its proportionate share of the Plan's pension expense and recognized grant revenue of $2,225 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of $39,534 from the Coal Severance Tax Fund.

Recognition of Deferred Inflows and Outflows

At June 30, 2017, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. actual experience	$ 68,059	$ 4,000
Projected investment earnings vs. actual investment earnings	-	18,561
Changes in assumptions	377,755	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	18,697	-
Employer contributions subsequent to the measurement date	208,122	-
Total	$ 672,633	$ 22,561

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

For the Measurement Year Ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2018	$ 97,894
2019	$ 216,102
2020	$ 168,080
2021	$ (58,822)
2022	$ -
Thereafter	$ -

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, MCA. This plan provides retirement benefits to covered employees of the State, and local governments, and 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 choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* 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).

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.

Summary of Benefits

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.

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Vesting

5 years of membership service

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;

Compensation Cap

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

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.

Guaranteed Annual Benefit Adjustment (GABA)

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.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more.

<u>Overview of Contributions</u>

Members and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

	Member		Local Government	
Fiscal Year	Hired < 07/01/11	hired after > 07/01/11	Employer	State of Montana
2018	7.900%	7.900%	8.470%	0.100%
2017	7.900%	7.900%	8.370%	0.100%
2016	7.900%	7.900%	8.270%	0.100%
2015	7.900%	7.900%	8.170%	0.100%
2014	7.900%	7.900%	8.070%	0.100%
2012-2013	6.900%	7.900%	7.070%	0.100%
2010-2011	6.900%		7.070%	0.100%
2008-2009	6.900%		6.935%	0.100%
2000-2007	6.900%		6.800%	0.100%

1. Member contributions to the system of 7.9% are 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.

2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

3. Non Employer Contributions:
   a. Special Funding
      i. The State contributed 0.1% of members' compensation on behalf of local government entities.
      ii. The State contributed 0.37% of members' compensation on behalf of school district entities.
   b. Not Special Funding
      i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

<u>Stand-Alone Statements</u>

The financial statements of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report (CAFR)* and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at http://mpera.mt.gov.

Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- Investment return (net of admin expense) 7.65%
- Admin expense as % of payroll 0.26%
- General wage growth * 3.50%
  * Includes inflation at 2.75%
- Merit increases 0% to 6.3%
- Postretirement benefit increases
  Guaranteed Annual Benefit Adjustment (GABA)
  After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
    - 3% for members hired prior to July 1, 2007
    - 1.5% for members hired between July 1, 2007 and June 30, 2013
    - Members hired on or after July 1, 2013:
        a. 1.5% for each year PERS is funded at or above 90%;
        b. 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
        c. 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among disabled members were based on RP 2000 Combined Mortality Tables with no projections.

Discount Rate

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 0.1% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Target Allocations

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, was outlined in a report dated May 2017 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions 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 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 by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 20, 2017, are summarized below.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Cash equivalents	2.60%	4.00%	0.10%
Domestic equity	36.0%	4.55%	1.64%
Foreign equity	18.0%	6.35%	1.14%
Fixed income	23.4%	1.00%	0.23%
Private equity	12.0%	7.75%	0.93%
Real estate	8.0%	4.00%	0.32%
Total	100.0%		4.37%
Inflation			2.75%
Portfolio return expectation			7.12%

The long-term expected nominal rate of return above of 7.12% is an expected portfolio rate of return provided by Board of Investments (BOI), which differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of Measurement Date	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Employer's Net Pension Liability	$ 4,024,949	$ 2,763,602	$ 1,704,795

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Summary of Significant Accounting Policies

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. 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 in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

PERS Disclosure for the Defined Contribution Plan

The Authority contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS 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 participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to the individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2017, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 300 employers that have participants in the PERS-DCRP totaled $396,650.

NOTE 9. NET POSITION

Net position consists of the following as of June 30, 2018:

Net investment in capital assets	
Captial assets	$ 117,027,322
Less: current liabilities	
Current portion of bonds payable for amount invested in capital assets	(585,000)
Less: long-term liabilities	
Bonds payable for amount invested in capital assets, less current portion	(12,250,000)
	104,192,322
Restricted net position	
Capital projects and debt service	7,072,560
Customs	144,826
	7,217,386
Unrestricted net position	12,128,866
Total net position	$ 123,538,574

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, 2018. Minimum rentals on non-cancelable leases for the next five years ending June 30 are approximately as follows:

2019	$ 3,939,278
2020	$ 3,935,627
2021	$ 2,429,565
2022	$ 1,787,068
2023	$ 523,403

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 $4,435,535 for the year ended June 30, 2018 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."

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, 2018 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.

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 through May 31, 2017. The rate was increased to $4.25 per contract rental day effective June 1, 2017.

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, 2018 were $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, 2018 were $652.

Ted Mathis (Board Member) leases a hangar from the Authority on a month-to-month basis. Lease revenues for the year ended June 30, 2018 were $1,800.

No amounts were due to or from any of these related parties as of June 30, 2018.

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, 2018.

NOTE 15. COMMITMENT

The Authority had entered into an agreement with Gallatin County, City of Belgrade, and Montana Department of Transportation for the planning and construction of the new Interstate 90 interchange and connector roadways located in the vicinity of Bozeman Yellowstone International Airport. The Authority had committed funding not-to-exceed $3,000,000 for this project. As of June 30, 2018, this commitment had been substantially met and any remaining liability has not been determined.

NOTE 16. 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. There have been no settlements in excess of the insurance coverage in any of the three prior years.

NOTE 17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 19, 2018, the date on which these financial statements were available to be issued.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

As of Measurement Date	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.1419%	0.1422%	0.1396%	0.1401%
Employer's net pension liability	$ 2,763,602	$ 2,422,514	$ 1,951,981	$ 1,745,531
State's Net Pension Liability	$ 41,740	$ 29,600	$ 23,977	$ 21,316
Total Net Pension Liability	$ 2,805,342	$ 2,452,114	$ 1,975,958	$ 1,766,847
Employer's covered payroll	$ 1,760,010	$ 1,703,557	$ 1,629,621	$ 1,610,223
Employer's proportionate share as a percentage as of covered payroll	157.02%	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage Total Pension Liability	73.75%	74.71%	78.40%	79.87%

* *Schedule is intended to show information for 10 years.*
Additional years will be displayed as they become available.

SCHEDULE OF CONTRIBUTIONS

As of Most Recent FYE (reporting date)	2018	2017	2016	2015
Contractually required DB contributions	$ 161,536	$ 147,334	$ 142,393	$ 134,287
Plan Choice Rate required contributions	$ -	$ -	$ 9,383	$ 15,244
Contributions in relation to the contractually required contributions	$ 161,536	$ 147,334	$ 151,776	$ 149,531
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 1,907,151	$ 1,760,010	$ 1,703,557	$ 1,629,621
Contributions as a percentage of covered payroll	8.47%	8.37%	8.91%	9.18%

* *Schedule is intended to show information for 10 years.*
Additional years will be displayed as they become available.

CHANGES IN BENEFIT TERMS

The following changes to the plan provision were made as identified:

<u>2015 Legislative Changes:</u>

General revisions – House Bill 101, effective January 1, 2016
Second Retirement Benefit

I. Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
   - refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - no service credit for second employment;
   - start same benefit amount the month following termination; and
   - GABA starts again in the January immediately following second retirement.

II. For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
   - members receive a recalculated retirement benefit based on laws in effect at second retirement; and,
   - GABA starts in the January after receiving recalculated benefit for 12 months.

III. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
   - refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - no service credit for second employment;
   - start same benefit amount the month following termination; and,
   - GABA starts again in the January immediately following second retirement.

IV. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retire again:
   - member receives same retirement benefit as prior to return to service;
   - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
   - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revised DC Funding Laws – House Bill 107, effective July 1, 2015
Employer Contributions and the Defined Contribution Plan

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution member's account.

<u>2017 Legislative Changes:</u>
General revisions – House Bill 101, effective July 1, 2017
Working Retireee Limitations – for PERS

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Terminating Employers – Recovery of actuary costs – for PERS

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

Refunds

I. Terminating members eligible to retire may, in lieu of receiving monthly retirement, refund their accumulated contributions in a lump sum.
II. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of terminating service.
III. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Family Law Orders

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled membered hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

- FY2018 - $31.386 million
- FY2019 - $31.958 million
- Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
    - FY2020 - $32.277 million
    - FY2021 - $32.6 million
    - FY2022 - $32.926 million
    - FY2023 - $33.255 million
    - FY2024 - $33.588 million
    - FY2025 - $33.924 million

CHANGE IN ACTUARIAL ASSUMPTIONS AND METHODS

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 2017 actuarial valuation:

General Wage Growth *	3.50%
Investment Rate of Return *	7.65%
* includes inflation at	2.75%
Merit salary increases	0% to 6.30%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Mortality (healthy members)	For males and females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using BB, males set back 1 year
Mortality (disabled members)	For males and females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.26%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

STATISTICAL SECTION

- Statistical section introduction
- Net position and changes in net positon
- Changes in cash and cash equivalents
- Operating revenues, airline cost per enplanement, and airline rates
- Debt service, coverages, and ratios
- Aircraft operations and total passengers
- Enplanements and load factor by air carrier
- Budgeted employees by department
- Insurance coverage
- Airport information
- Demographic and economic statistics
- Principal employers in region

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

	Dollars in 000's									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operating revenues	$ 11,888	10,498	9,630	8,918	8,192	7,271	7,021	6,410	5,214	5,117
Operating expenses	6,120	5,186	4,639	4,434	4,221	3,739	3,753	3,396	2,924	2,853
Operating income, before depreciation	5,768	5,312	4,991	4,484	3,971	3,532	3,268	3,014	2,290	2,264
Less: depreciation	4,225	4,182	3,976	3,848	3,839	3,809	3,138	2,804	2,350	2,220
Operating income (loss)	1,543	1,130	1,015	636	132	(277)	130	210	(60)	44
Net nonoperating revenues (expenses)	3,973	2,839	2,409	(839)	(492)	(2,532)	(376)	(261)	(70)	357
Capital contributions	7,976	6,866	3,358	4,688	3,454	5,459	6,171	10,943	7,974	938
Change in net position	$ 13,492	10,835	6,782	4,485	3,094	2,650	5,925	10,892	7,844	1,339
Net investment in capital assets	$ 104,192	82,435	72,958	71,296	70,700	68,139	70,951	68,968	51,862	45,450
Restricted	7,217	5,847	4,672	3,824	3,890	3,689	4,321	3,743	1,374	253
Unrestricted	12,129	21,764	21,581	17,309	15,427	15,095	9,262	5,898	14,481	14,170
Total net positon	$ 123,538	110,046	99,211	92,429	90,017	86,923	84,534	78,609	67,717	59,873

Source: Gallatin Airport Authority records

Changes in Cash and Cash Equivalents

Ten Years Ended June 30

	Dollars in 000's									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Cash from operating activities										
Receipts from customers	$ 11,646	10,849	8,794	9,133	8,310	6,797	7,375	6,141	5,251	5,174
Payments to suppliers	(2,360)	(1,909)	(1,771)	(1,617)	(1,283)	(1,301)	(1,938)	(1,856)	(1,472)	(1,457)
Payments to employees	(3,765)	(3,225)	(2,941)	(2,825)	(2,549)	(2,419)	(1,684)	(1,582)	(1,425)	(1,445)
	5,521	5,715	4,082	4,691	4,478	3,077	3,753	2,703	2,354	2,272
Cash from noncapital financing activities	17	7	(79)	(422)	2	(1,763)	-	-	-	-
Cash from capital and related financing activities										
Capital asset purchases	(23,508)	(11,756)	(4,702)	(4,705)	(5,087)	(785)	(5,170)	(26,338)	(18,073)	(5,961)
Grant receipts (payments)	7,055	5,401	3,362	2,940	3,035	2,676	4,348	6,281	5,916	(18)
Passenger fac. charge receipts	2,403	2,183	2,022	1,872	1,826	1,684	1,506	1,443	1,308	839
Customer fac. charge receipts	1,936	1,095	878	750	633	582	450	421	224	-
Bond proceeds received	-	-	-	-	-	-	-	-	16,000	-
Bond principal payments	(565)	(550)	(535)	(520)	(505)	(490)	-	-	-	-
Bond interest payments	(574)	(592)	(608)	(624)	(639)	(653)	(653)	(653)	(399)	-
Other receipts (payments)	-	-	-	-	56	-	560	-	(340)	(17)
	(13,253)	(4,219)	417	(287)	(681)	3,014	1,041	(18,846)	4,636	(5,157)
Cash from investing activities										
Investments purchased	-	-	-	-	-	(23)	(3)	(36)	(1,144)	-
Interest received	91	62	93	128	182	269	310	420	199	33
Investment sale proceeds	-	-	-	-	-	1,149	-	7,456	3,633	-
Reclass of investments	-	-	-	23	-	-	-	-	-	-
	91	62	93	151	182	1,395	307	7,840	2,688	33
Change in cash and and cash equivalents	(7,624)	1,565	4,513	4,133	3,981	5,723	5,101	(8,303)	9,678	(2,852)
Cash and cash equivalents, beginning of year	29,191	27,626	23,112	18,979	14,998	9,275	4,174	12,477	2,799	5,651
Cash and cash equivalents, end of year	$ 21,567	29,191	27,626	23,112	18,979	14,998	9,275	4,174	12,477	2,799

Source: Gallatin Airport Authority records

Operating Revenues, Airline Cost Per Enplanement, and Airline Rates

Ten Years Ended June 30

		Revenues and Enplanements in 000's									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Airline Revenues											
Landing fees	$	705	624	619	605	573	571	556	521	466	478
Terminal rentals		969	895	848	853	818	791	788	737	692	719
		1,674	1,519	1,467	1,458	1,391	1,362	1,344	1,258	1,158	1,197
Non-airline Revenues											
Rental car		3,685	3,218	2,743	2,624	2,416	2,095	2,071	1,962	1,574	1,550
Parking		3,150	2,753	2,590	2,396	2,113	1,819	1,674	1,433	1,090	1,107
Other terminal rents											
and concessions		1,655	1,465	1,384	1,110	1,030	924	829	626	473	463
General aviation		687	617	570	519	482	462	454	458	437	415
Air cargo		43	43	41	39	38	38	37	37	37	31
Other		994	883	834	772	722	571	612	637	444	353
Total operating revenues	$	11,888	10,498	9,629	8,918	8,192	7,271	7,021	6,411	5,213	5,116
Scheduled enplanements		627	572	529	498	456	439	407	385	364	343
Airline cost per enplanement	$	2.67	2.66	2.77	2.93	3.05	3.11	3.30	3.27	3.18	3.49
Airline Rates											
Landing fee (per 1,000 lbs.											
over 12,500 GLW)	$	1.00	1.02	1.06	1.06	1.14	1.11	1.11	1.15	1.12	1.12
Terminal rents											
(per sq. ft. per year):											
Finished	$	24.00	22.27	22.27	22.27	22.27	22.27	22.27	22.27	21.62	21.06
Unfinished	$	12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97
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

Debt Service, Coverages, and Ratios

Ten Years Ended June 30

	Dollars and Enplanements in 000's										
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Outstanding debt –											
2009 revenue bonds	$	12,835	13,400	13,950	14,485	15,005	15,510	16,000	16,000	16,000	-
Enplaned passengers		629	574	531	500	458	440	408	386	365	343
Outstanding debt per											
enplaned passenger	$	20.41	23.34	26.27	28.97	32.76	35.25	39.22	41.45	43.84	-
Principal	$	565	550	535	520	505	490	-	-	-	-
Interest		574	592	608	624	639	653	653	653	399	-
Debt service –											
2009 revenue bonds	$	1,139	1,142	1,143	1,144	1,144	1,143	653	653	399	-
Net revenues available											
for debt service	$	9,741	8,151	7,400	5,584	5,245	2,713	4,491	4,243	3,518	3,592
Debt service *		1,139	1,142	1,143	1,144	1,144	1,143	653	653	399	-
Debt service coverage	$	8.55	7.14	6.47	4.88	4.59	2.37	6.87	6.49	8.81	0.00

* There was no outstanding debt in fiscal year 2009

Source: Gallatin Airport Authority records

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Aircraft Operations										
Air carrier	11,861	10,735	9,990	10,388	8,642	8,708	7,908	7,587	7,307	7,815
Air taxi	9,834	9,009	8,923	8,336	9,454	9,222	9,470	10,385	9,269	9,189
GA itinerant	30,298	31,108	30,456	30,135	28,178	27,875	28,387	25,828	26,608	27,608
Military	274	297	340	220	315	262	285	173	264	255
Total itinerant	52,267	51,149	49,709	49,079	46,589	46,067	46,050	43,973	43,448	44,867
GA local	26,052	25,794	30,920	30,653	31,893	30,770	36,066	26,050	23,693	30,012
Total aircraft operations	78,319	76,943	80,629	79,732	78,482	76,837	82,116	70,023	67,141	74,879
Total Passengers										
Enplanements	628,533	573,767	530,903	499,977	457,716	440,203	408,199	386,092	365,210	342,714
Deplanements	629,441	574,580	529,829	497,664	459,844	437,043	409,910	385,157	362,838	340,563
Total passengers	1,257,974	1,148,347	1,060,732	997,641	917,560	877,246	818,109	771,249	728,048	683,277
Growth	9.5%	8.3%	6.3%	8.7%	4.6%	7.2%	6.1%	5.9%	6.6%	-2.7%

Source: Gallatin Airport Authority records

Enplanements and Load Factor by Air Carrier

Ten Years Ended June 30

	Enplanements in 000's									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Delta										
Enplanements	233	214	223	202	188	169	161	158	119	82
Load factor	85.0%	85.9%	85.3%	82.8%	86.8%	86.5%	86.2%	82.1%	89.1%	73.6%
Northwest										
Enplanements	-	-	-	-	-	-	-	-	37	75
Load factor	-	-	-	-	-	-	-	-	87.0%	71.0%
United										
Enplanements	225	208	177	160	150	137	124	129	120	99
Load factor	78.6%	82.6%	83.2%	80.3%	87.3%	85.8%	84.7%	80.3%	90.0%	78.3%
Alaska										
Enplanements	86	89	82	70	53	48	44	40	37	31
Load factor	86.4%	86.3%	84.7%	82.7%	84.5%	81.0%	79.3%	70.3%	86.9%	71.5%
Frontier										
Enplanements	8	14	16	37	36	48	46	35	36	43
Load factor	87.2%	83.9%	86.6%	89.7%	87.4%	81.4%	80.4%	81.0%	69.8%	54.4%
Allegiant										
Enplanements	29	29	29	29	30	38	32	23	16	13
Load factor	87.5%	88.2%	86.6%	86.5%	89.9%	92.0%	89.3%	88.6%	99.7%	114.0%
American										
Enplanements	46	19	2	-	-	-	-	-	-	-
Load factor	81.9%	81.2%	90.7%	-	-	-	-	-	-	-
Total scheduled enplanements	627	572	529	498	457	440	407	385	365	343
Average load factor	82.7%	84.6%	84.6%	82.6%	86.9%	85.5%	84.5%	80.3%	87.0%	71.9%
Charter										
Enplanements	2	2	1	2	1	2	1	1	1	-
Total enplanements	629	574	530	500	458	442	408	386	366	343

Source: Gallatin Airport Authority records

Year	Maintenance & Airside Operations	Landside Operations	Public Safety	Administration	Total
2018	17	9	8	5	39
2017	15	8	7	5	35
2016	12	8	7	5	32
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

Source: Gallatin Airport Authority's operating budget records

Insurance Coverage

As of June 30, 2018

Policy Type	Insurer		Coverage	Expiration
Buildings	Cincinnati Insurance	$	67,421,617	8/10/2018
Business personal property	Cincinnati Insurance	$	1,137,747	8/10/2018
Automobile	Cincinnati Insurance	$	1,000,000	8/10/2018
Liability	Ace Property and Casuatlty	$	25,000,000	8/10/2018
Mobile equipment	Cincinnati Insurance	$	2,170,117	8/10/2018
Employee theft	Cincinnati Insurance	$	50,000	8/10/2018
Employment practices	Cincinnati Insurance	$	1,000,000	8/10/2018
Directors & officers	Cincinnati Insurance	$	1,000,000	8/10/2018
Aviation	Ace Property and Casualty	$	60,000,000	8/10/2018
Law enforcement	Allied World	$	1,000,000	8/10/2018

Source: Gallatin Airport Authority records

Location:	9 miles northwest of Bozeman, MT		
Area:	Fee title	1,959	acres
	Easement controlled	1,334	acres
	State lease	93	acres
	Total	3,386	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'
	11/29	Paved	5,050' x 75'
Terminal:	205,000 sq. ft.		
Terminal apron:	671,150 sq. ft.		
Parking spaces:	Pay parking Long-term		1,483
	Pay parking short-term		355
	Rental car - ready		275
	Rental car - return		332
	Total rental car		607
	Employee parking		271
	Total		3,323
Apron areas:	Terminal	755,765	sq. ft.
	Old terminal	66,829	sq. ft.
	General aviation	621,870	sq. ft.
	Tie-down	125,985	sq. ft.
	East ramp	610,385	sq. ft.
	Total	2,180,834	sq. ft.
Based aircraft:	Sailplane		11
	Single engine (piston)		252
	Twin engine (piston)		17
	Single engine (turboprop)		8
	Twin engine (turboprop)		7
	Single engine (jet)		4
	Multi engine (jet)		38
	Helicopter		23
	Total		360
Hangars:	193		
Fixed based operators:	Arlin's Aircraft		
	Yellowstone Jetcenter		
International:	U.S. Customs User Fee Facility		

Source: Gallatin Airport Authority records

Demographic and Economic Statistics

Ten Years Ended June 30

GALLATIN COUNTY

Year	Population	Per Capita Personal Income	Personal Income (in 000's)	Unemployment Rate
2018	unavailable	unavailable	unavailable	unavailable
2017	unavailable	unavailable	unavailable	unavailable
2016	104,502	unavailable	unavailable	2.7%
2015	100,739	46,337	4,667,943	2.9%
2014	97,308	42,350	4,120,994	2.9%
2013	94,694	41,137	3,895,427	3.4%
2012	92,604	40,653	3,764,630	4.4%
2011	91,333	38,058	3,475,951	5.1%
2010	89,599	35,477	3,178,704	5.8%
2009	90,343	34,710	3,135,806	6.0%

MONTANA

Year	Population	Per Capita Personal Income	Personal Income (in 000's)	Unemployment Rate
2018	unavailable	unavailable	unavailable	unavailable
2017	unavailable	unavailable	unavailable	3.9%
2016	1,042,646	42,386	44,193,593	4.2%
2015	1,032,949	41,280	42,640,135	4.1%
2014	1,023,579	39,903	40,843,873	4.7%
2013	1,014,864	38,884	39,461,972	5.4%
2012	1,005,163	39,102	39,303,884	6.1%
2011	997,661	36,959	36,872,553	7.0%
2010	990,575	34,737	34,409,604	7.3%
2009	974,989	33,627	32,785,955	6.9%

Sources:

Census Bureau

Bureau of Economic Analysis

Current Year *		2009	
Private Employers By Class	Number of Employees	Private Employers By Class	Number of Employees
Bozeman Deaconess Hospital	1,000 +	Bozeman Deaconess Hospital	1,000 +
Oracle America	250 to 499	Right Now Technologies	250 to 499
Town Pump Convenience Stores	250 to 499	Wal-Mart	250 to 499
Wal Mart	250 to 499	Albertson's	100 to 249
Albertson's	100 to 249	Bozeman Daily Chronicle	100 to 249
Barnard Construction	100 to 249	Community Food Co-Op	100 to 249
Best Western Gran Tree Inn	100 to 249	Costco	100 to 249
Bridger Bowl	100 to 249	First Security Bank	100 to 249
Community Food Co-Op	100 to 249	Kenyon Noble Lumber & Hardware	100 to 249
Costco	100 to 249	Lowes	100 to 249
First Student	100 to 249	Martel Construction	100 to 249
JC Billion	100 to 249	McDonalds	100 to 249
Kenyon Noble Lumber & Hardware	100 to 249	Murdoch's Ranch & Home Supply	100 to 249
Korman Marking Group	100 to 249	Ressler Motors	100 to 249
Martel Construction	100 to 249	Ridge Athletic Club	100 to 249
McDonalds	100 to 249	Riverside Country Club	100 to 249
Murdoch's Ranch & Home Supply	100 to 249	Rosauers Supermarket	100 to 249
Ressler Motors	100 to 249	Simkin Hallin Lumber	100 to 249
Rosauers Super Markets	100 to 249	Town Pump	100 to 249
Target	100 to 249	Zoot Enterprises	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 +
Bozeman School District	1,000 +	Bozeman School District	500 to 999
Belgrade School District	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		

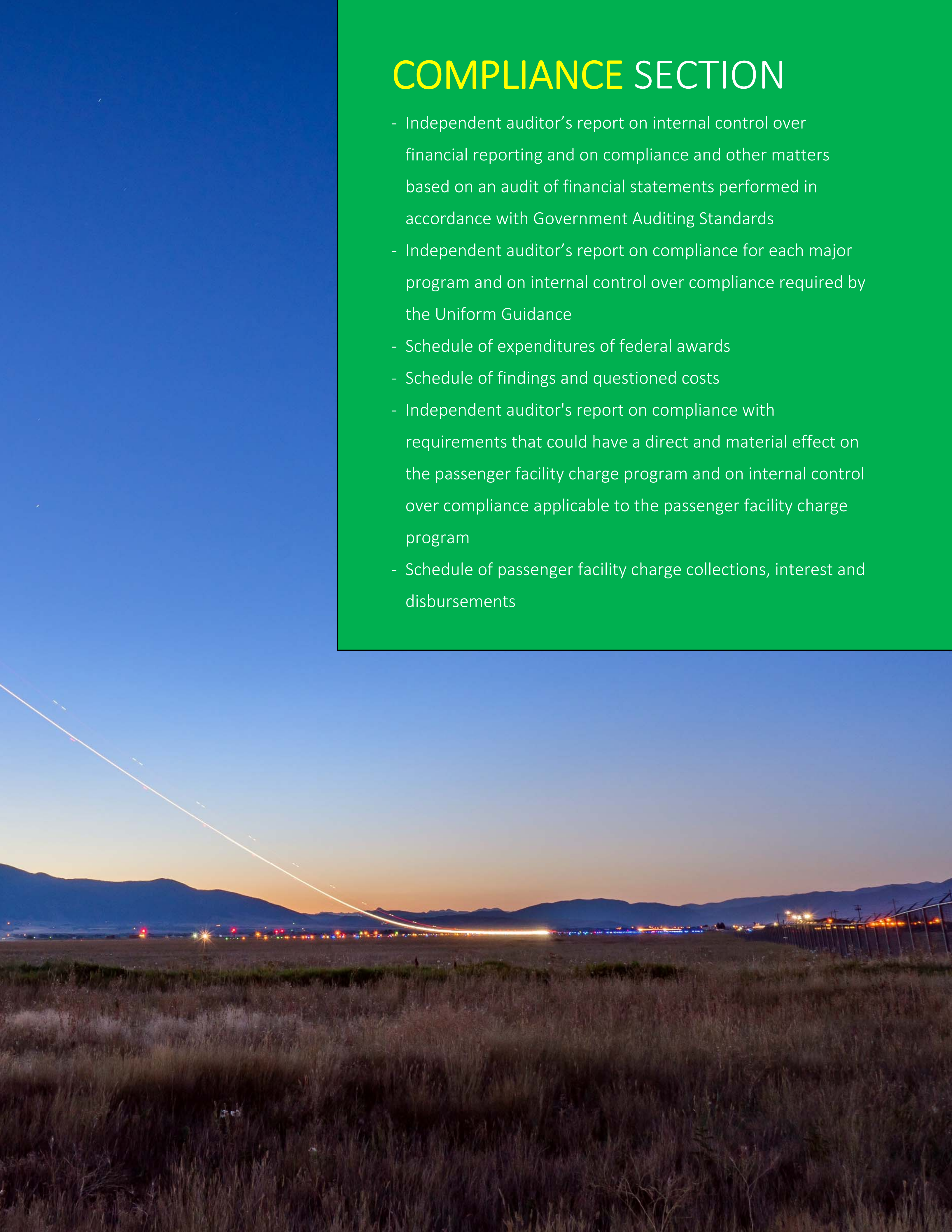
* 2017 information is presented for current year and is the most recent available

Region is defined as Gallatin County

Source: Montana Department of Labor & Industry

COMPLIANCE SECTION

- 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
- Independent auditor’s report on compliance for each major program and on internal control over compliance required by the Uniform Guidance
- Schedule of expenditures of federal awards
- Schedule of findings and questioned costs
- Independent auditor's report on compliance with requirements that could have a direct and material effect on the passenger facility charge program and on internal control over compliance applicable to the passenger facility charge program
- Schedule of passenger facility charge collections, interest and disbursements



holmes & turner
A PROFESSIONAL CORPORATION

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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 Commissioners
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, 2018, 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 October 19, 2018.

Internal Control over Financial Reporting

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

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

Bozeman, Montana
October 19, 2018

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners
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 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2018. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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, 2018.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Holmes + Turner

Bozeman, Montana
October 19, 2018

Federal Source / Program	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION		
Federal Aviation Administration - Airport Improvement Program (AIP)		
Project No. 3-30-0010-42	20.106	2,418
Project No. 3-30-0010-44	20.106	20,038
Project No. 3-30-0010-45	20.106	149,067
Project No. 3-30-0010-47	20.106	1,179,054
Project No. 3-30-0010-48	20.106	2,621,910
Project No. 3-30-0010-49	20.106	2,981,352
Total U.S. Dept. of Transportation		$ 6,953,839
Total expenditures of federal awards		$ 6,953,839

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, 2018 has been subjected to the applicable compliance testing requirements prescribed by the Uniform Guidance.

FEDERAL INDIRECT RATE

The Authority has not elected to use the 10-percent de minims cost rate allowed under the Uniform Guidance.

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of audit report issued:	Unmodified
Internal control over financial reporting:	
▪ Significant deficiency disclosed?	No
▪ Material weaknesses disclosed?	No
▪ Material noncompliance disclosed?	No

Federal Awards

Type of auditor's report on compliance for the major federal program:	Unmodified
Internal control over the major program:	
▪ Significant deficiency disclosed?	No
▪ Material weaknesses disclosed?	No
Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No
Identification of major program:	Airport Improvement Program (AIP) CFDA 20.106
Dollar threshold to distinguish between Type A and Type B programs:	$750,000
Auditee qualifies as a low-risk auditee?	Yes

II. FINANCIAL STATEMENT FINDINGS

None reported

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM

Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Report on Compliance for the Passenger Facility Charge Program

We have audited Gallatin Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide) that could have a direct and material effect on its passenger facility charge (PFC) program for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's PFC 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States; and the *Passenger Facility Charge Audit Guide for Public Agencies*. 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 passenger 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 we considered necessary in the circumstances.

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

Opinion

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 passenger facility charge program for the year ended June 30, 2018.

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, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on its PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the PFC program and to test and report on internal control over compliance in accordance with the *Passenger Facility Charge Audit Guide for Public Agencies*, 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.

Report on Internal Control Over Compliance (Continued)

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 PFC compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over PFC compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the PFC program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over PFC compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the PFC 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 that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, 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.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance with the results of our testing based on the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies.* Accordingly, this report is not suitable for any other purpose.

Holmes + Turner

Bozeman, Montana
October 19, 2018

Schedule of Passenger Facility Charge Collections, Interest and Disbursements

Year Ended June 30, 2018

	Total June 30, 2017	FY 2018 Activity 1st qtr	2nd qtr	3 qtr	4th qtr	Total June 30, 2018
Collections	$ 23,624,833	626,435	569,216	579,594	627,640	$ 26,027,718
Interest	291,327	1,100	1,269	1,424	1,415	296,535
Disbursements	(21,368,337)	-	(287,193)	-	(852,194)	(22,507,724)
Cash balance	$ 2,547,823	$ 627,535	$ 283,292	$ 581,018	$ (223,139)	$ 3,816,529

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