

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2016



GALLATIN AIRPORT AUTHORITY
Belgrade, Montana

2016

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Belgrade, Montana

Prepared by: Department of Finance and Administration

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GALLATIN AIRPORT AUTHORITY

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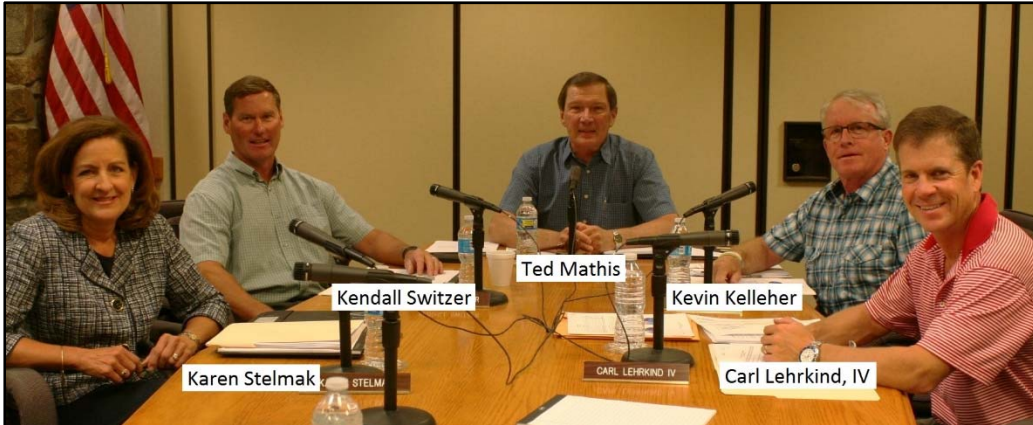
INTRODUCTORY SECTION



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GALLATIN AIRPORT AUTHORITY
BOARD OF COMMISSIONERS AND SENIOR STAFF

BOARD OF COMMISSIONERS



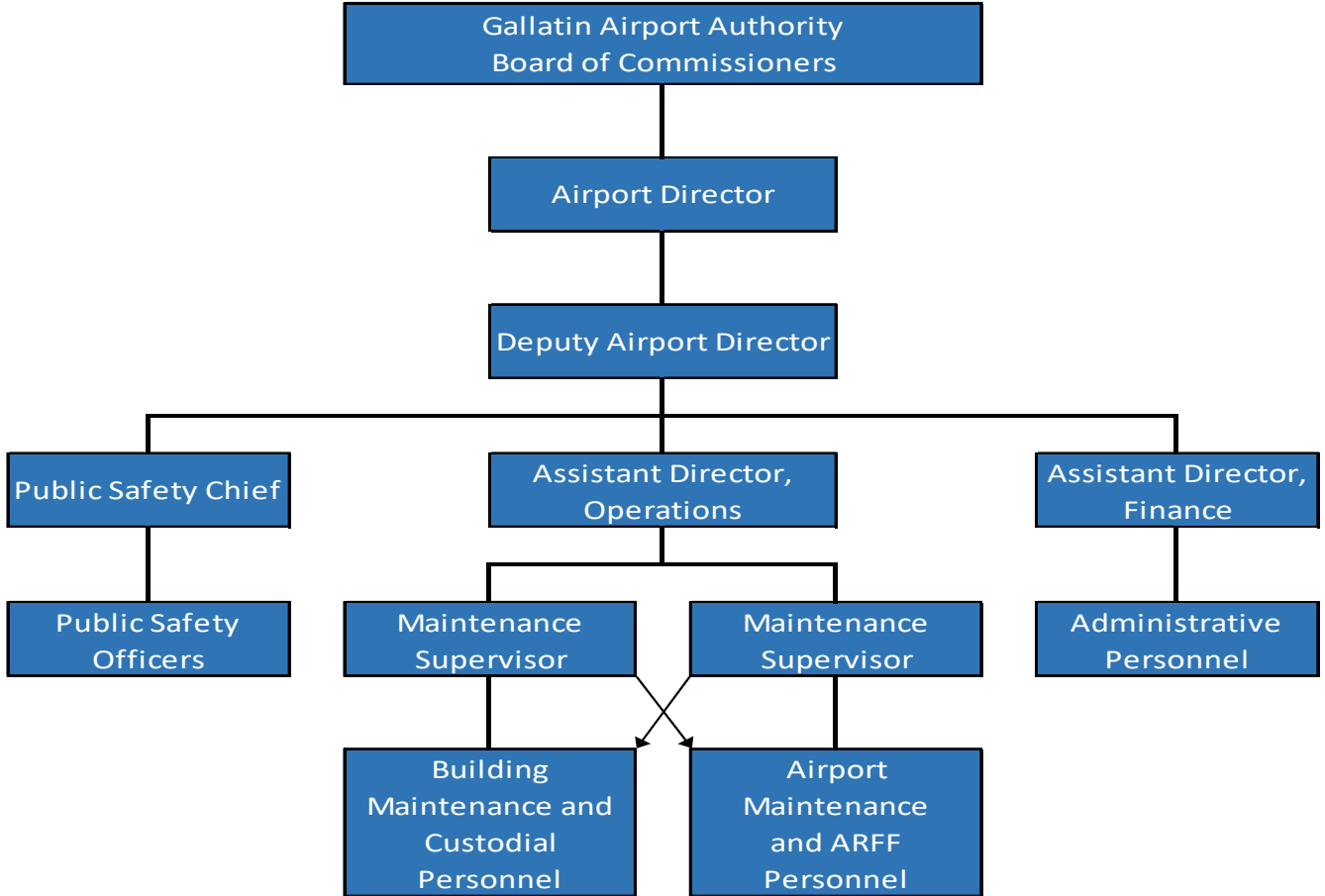
- Ted MathisChair
- Carl Lehrkind, IV Vice Chair
- Kendall SwitzerSecretary
- Kevin Kelleher Member
- Karen Stelmak Member

SENIOR STAFF

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

GALLATIN AIRPORT AUTHORITY

ORGANIZATIONAL CHART



LETTER OF TRANSMITTAL

October 27, 2016

To the members of the Board:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Gallatin Airport Authority (Authority), for the year ended June 30, 2016.

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

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

PROFILE OF THE AUTHORITY

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

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

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

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

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

ECONOMIC CONDITIONS AND OUTLOOK

State of the Industry

Global airlines generated an aggregate profit of \$35.3 billion with over half of those profits generated in North America (\$22.9 billion). Lower fuel costs were realized as fuel represented just 13.9% of the industry's expense down from 33.1% a few years ago. Passenger capacity expanded 4.3% outpacing a 4.0% increase in demand, while load factors remained well above break-even levels. Cash flow was sufficient for many U.S. carriers to improve balance sheets by repaying debt and returning cash to shareholders. Delta joined Southwest and Alaska Airlines this past year with an investment-grade credit rating from Moody's and Fitch. Operating margins for US domestic and low-cost airlines were above 15% for the first time.

While cash flow was not a concern, after 19 quarters of continued growth, passenger yields declined. Cheaper fuel allowed US airlines to become more competitive on fares, which eroded yield 5%-6%. Additionally, since U.S. airlines recorded record profits over the past few years, employees want their share of the bounty. Industry-leading pay rates and work rules have become primary goals of negotiating committees with Delta, United, Southwest, Allegiant and Spirit airlines working through open contracts. Over the past two years, labor cost increased 16.4% at Southwest and for the first time ever, Southwest's unit labor costs are the highest among U.S. airlines (40% of Southwest unit cost is labor-related vs. 33.9% for the rest of the industry).

Industry consolidation continued with Alaska Airlines buying Virgin America for \$2.6 billion in an effort to protect its west coast operations from rival JetBlue. This buy out was a natural consequence of successive mergers that have concentrated domestic air travel between four primary airlines: American, Delta, United and Southwest. Together, they control 85% of the country's airline capacity.

The well-publicized pilot shortage is having a disproportionate effect on small communities. More than 30,000 airline captains are approaching the mandatory retirement age of 65 with an insufficient pool of replacements due to increased flight time requirements and training costs. Regional airlines are now "farm teams" for major airline pilot replacement. Regionals provide lift for major airlines like Delta, United and American to smaller communities. Without the ability to replenish pilots, airlines are consolidating frequency or abandoning service.

State of the Region

Southwest Montana continues to see strong economic growth. Bozeman and Gallatin County continue to be the fastest growing city and county (populations over 10,000) in the state, while unemployment has continued to decrease to 2.3% in July 2016. Montana State University has seen significant enrollment growth with 2,924 more students in 2016 compared to 2010. In addition, both summer and winter tourism have seen strong growth with Big Sky skier visits growing 59% over the past 6 years, and Yellowstone National Park Fiscal Year visitation (July 2015 – June 2016) surpassing all previous Fiscal Year visitation.

	FY 2016	FY 2015	FY 2010	Change FY15 to FY16	Change FY10 to FY16
BZN total passengers	1,060,732	997,641	728,048	6%	46%
Big Sky skier visits	477,000	440,000	300,000	8%	59%
Yellowstone National Park visits	4,230,926	3,727,513	3,348,087	14%	26%
Montana State University enrollment	15,688	15,294	12,764	3%	23%
Bozeman population	43,405	41,660	37,284	4%	16%
Bozeman unemployment rate	2.3%	2.4%	5.4%	-4%	-57%
Gallatin County population	100,739	97,308	89,599	4%	12%

AIRPORT HIGHLIGHTS – FISCAL YEAR 2016

For the year, BZN handled 1,060,732 total passengers maintaining its status as Montana’s busiest airport for the second consecutive year. For comparison, Billings is the second busiest airport in Montana at 851,559 passengers for FY 2016. BZN ended FY 2016 as the 114th 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 118th busiest in the nation and 8th busiest in the Northwest Region at the end of FY 2015.

Tourism and locally generated traffic continue to contribute nearly equally to the overall increase in passengers. Alaska Airlines’ expanding seasonal service to Portland, increasing use of mainline aircraft by United to Chicago, Denver and San Francisco as well as the addition of American Airlines to Bozeman with seasonal summer and winter service to Dallas/Ft. Worth accounted for the majority of the increase. Delta’s discontinuation of year round daily service to Seattle/Tacoma (September 2016) due to significant competition from Alaska Airlines’ strength in the same market will have some negative impact in the market but is offset by aggregate growth in the overall market. The strong local economy and continued tourism demand are expected to continue the growth trend through the next year although we expect the growth rate to moderate some.

Air Service

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

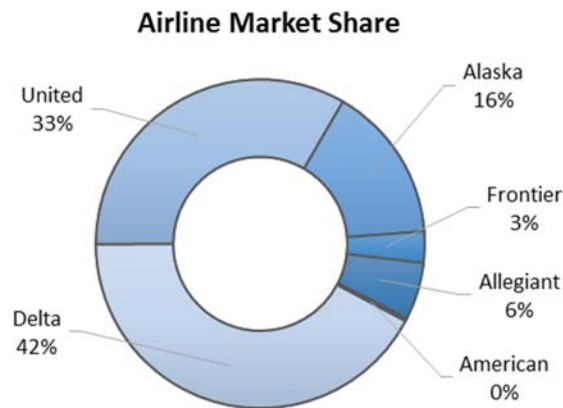


AIRPORT HIGHLIGHTS – FISCAL YEAR 2016 (continued)

The following table shows major air traffic activities during the fiscal years ended June 30, 2016 and 2015.

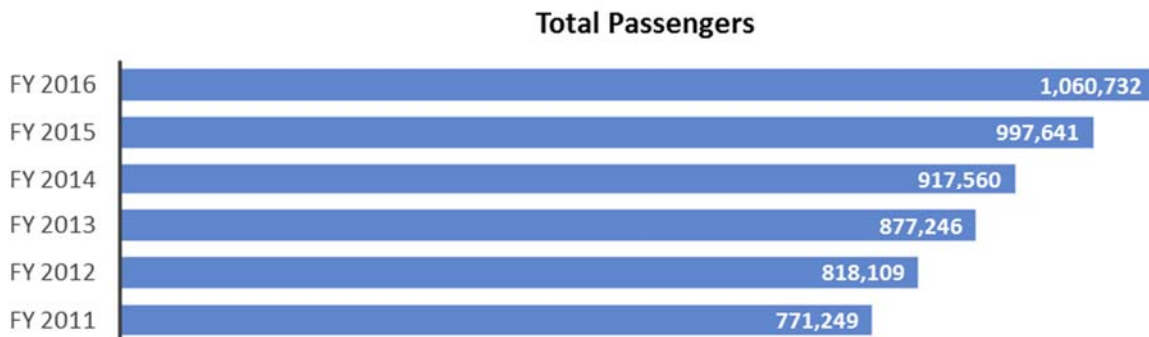
	2016	2015	Change
Total enplaned and deplaned passengers	1,060,732	997,641	6.3%
Enplaned passengers	530,903	499,977	6.2%
Deplaned passengers	529,829	497,664	6.5%
Aircraft operations	80,629	79,732	1.1%
Available departing seats	625,036	602,683	3.7%
Load factor average	84.7%	82.7%	2.4%

The following chart shows airline market share at BZN for the fiscal years ended June 30, 2016.



Passenger Traffic

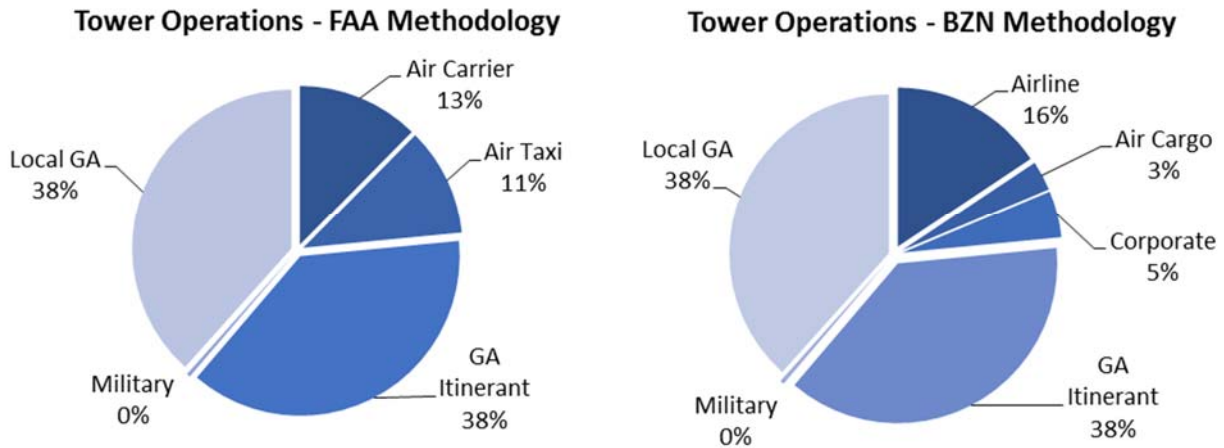
FY 2016 passenger traffic at BZN increased 6.3% to 1,060,732 passengers. Available seats increased 3.7% due to a combination of increased flight activity and increased average seats per aircraft. Load factor for FY2016 was 84.7%. Weekly average departures decreased 2.4% from 124 in FY 2015 to 121 in FY 2016. Average seats per aircraft increased 6.4% from 93 in FY 2015 to 99 in FY 2016. Alaska Airlines had the largest traffic increase for the second year in a row (16.6%) with United (10.8%) and Delta (10.6%) also increasing significantly. Frontier’s move to seasonal service and primarily origin and destination traffic only to Denver resulted in their 56.4% decrease in enplanements. Allegiant traffic was up a modest 1.1%. The addition of American Airlines to the market in June 2016 contributed 1,671 additional enplanements in FY 2016 and will have a more significant contribution in FY 2017.



AIRPORT HIGHLIGHTS – FISCAL YEAR 2016 (continued)

Tower Operations

Tower operations (landing or takeoff) increased 1.1% during FY 2016. Air Carrier operations decreased 3.8% as the size of the aircraft has increased. Air Taxi operations increased 7.0%. General Aviation Itinerant operations were up 1.1%. Military operations increased 54.5% but only 120 total operations due to the minimal military use of BZN. Overall Itinerant operations (Air Carrier, Air Taxi, General Aviation Itinerant and Military) were up 1.3%. BZN further clarifies Itinerant activity to Airline, Cargo, Corporate and General Aviation Itinerant. Local general aviation operations were up 0.9%. While the overall increase in operations was only 1.1%, BZN continued to see peak day operations of over 500 and peak hour operations that exceeded 70. These peak periods in addition to the mix of aircraft and varying approach speeds results in many periods where BZN is operating at capacity. Consequently, BZN has completed an environmental analysis for a parallel paved runway to separate slower piston powered aircraft from the faster jet aircraft and has started construction of the new runway in September 2016.



Cargo

Cargo revenues consists of landing fees from FedEx, UPS and the airlines, and ground rent paid by cargo operators for their facilities. Total cargo, express and air mail increased 8.4% to 5,207,378 lbs. in FY 2016. During FY 2016, FedEx moved 2,125,500 lbs. of cargo by air and transferred 1,536,000 lbs. by truck at its airport facility.

	<u>FY 2016 Lbs. Lbs. Moved</u>	<u>Change From FY 2015</u>
FedEx	3,661,500	6.5%
UPS	1,194,412	17.3%
Airlines	351,466	0.8%

AIRPORT HIGHLIGHTS – FISCAL YEAR 2016 (continued)

General Aviation

General Aviation activity remained steady at BZN with total operations up 1.2% during the fiscal year from 60,071 in FY 2015 to 60,788 in FY 2016. General Aviation operations account for approximately 76% of all airport tower operations. Corporate landings (aircraft 12,500 lbs. and above) were flat at 2,848 for the year compared to 2,849 the previous year. The Gallatin College continues to grow at BZN with Summit Aviation now operating 14 aircraft in conjunction with the aviation program. While General Aviation contributes 76% of the airport operations, it accounted for only 5.9% of the Airport Operating Revenue during FY 2016.

Fuel Flowage

Total Fuel flowage during the year increased 14.1% from 7,685,608 gallons in FY 2015 to 8,771,280 gallons in FY 2016. Of this total, Jet A (airline) fuel flowage increased 16.4% from 5,470,412 gallons to 6,369,988 gallons, Jet (non-airline) fuel flowage increased 9.3% from 2,078,316 gallons to 2,270,829 gallons but AvGas decreased 4.7% from 136,880 gallons to 130,463 gallons.

General Aviation Hangar Development

The Gallatin Airport Authority approved construction of three commercial hangars on taxi-lane “U”, a 10-unit non-commercial t-hangar complex between taxi-lanes “V” and “W” and one non-commercial hangar on taxi-lane “T” during the fiscal year.

Customs and Border Protection

The United States Customs and Border Protection facility in BZN handled 119 international arrivals during FY 2016, compared to 124 in FY 2015. Unlike locations at Helena, Great Falls and Kalispell, this location is operated as a user fee facility with approximately 74% of the operating cost paid for by the international arriving aircraft and the remaining 26% split three ways between the Gallatin Airport Authority, the Yellowstone Club and Signature Flight Support.

Land Acquisition

The Gallatin Airport Authority is in the process of trading a portion (approximately 53 acres of the total 180 acres) of airport parcel 56 for approximately 183 acres in parcel 26A and adjacent land to the north. The Airport Authority currently has a clear zone easement on parcel 26A and a portion of the land to the north is a former gravel pit currently being reclaimed. Because of the increased appraised value of airport land along Frontage Road and the reduced appraised value on the easement and gravel pit land, the land trade is considered an equal trade. Overall, the Gallatin Airport Authority’s land ownership will increase by approximately 127 acres in the trade. More importantly, the approaches for both runway 30 and runway 29 will be better protected for the future through fee title ownership. The land transfer agreement is expected to be completed in October 2016.

The Gallatin Airport Authority also has a buy-sell agreement on 60 acres northeast of the airport. This purchase is subject to an appraisal of the fair market value of this parcel.

AIRPORT HIGHLIGHTS – FISCAL YEAR 2016 (continued)

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

Insurance Brokerage Services - A request for proposals was issued for insurance brokerage services and an agreement was awarded to Payne West for a period of up to five years beginning August 2016.

Pay Parking Lot Management Services – A request for proposals was issued for pay parking lot management services and an agreement was awarded to Republic Parking for a period of five years beginning October 2016. The Board also thanked SP+ (Standard Parking) for over 37 years of serving BZN.

Engineering Services – A request for qualifications was issued for engineering services and an agreement was awarded to Morrison Maierle for a period of five years beginning September 2016.

Planning Services – A request for qualifications was issued for planning services and an agreement was awarded to Morrison Maierle for a period of five years beginning September 2016.

Snow Removal Equipment – A request for proposal was issued for the acquisition of (1) 4x4 all-wheel drive, cab forward, snow removal chassis with a 20’ high speed broom with air blast and (1) 4x4 snow plow truck with mounted 14’ power reversible displacement plow. The contract was awarded to M-B Companies.

Financial

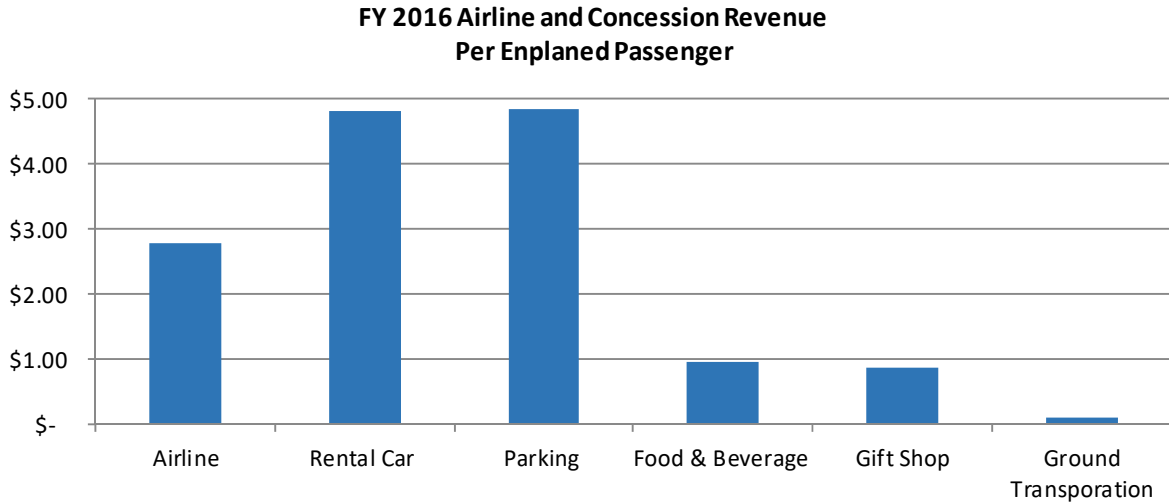
Financially, the Authority depends on our passengers with over 90% of the Authority’s operating revenues generated from the businesses that utilize the airline terminal building through rents and concession fees. However, we are dependent upon the airlines providing seats into our market and we compete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

The Authority has diligently controlled the costs passed on to the airlines through strict cost controls, a highly professional and cross utilized staff, and a fiscally conservative capital improvement program. As a result, airline cost per enplanement to operate at BZN this year declined 5.5% from \$2.93 to \$2.77.

	<u>FY 2016</u>	<u>FY 2015</u>
Airline cost	\$ 1,467,582	\$ 1,458,820
Enplanements scheduled	<u>529,481</u>	<u>498,363</u>
Cost per enplaned passenger	\$ 2.77	\$ 2.93

Airline and Concession revenues are variable dependent upon passenger enplanements. These revenues increased from \$14.17 per enplanement in FY 2015 to \$14.29 per enplanement in FY 2016. Airline revenues account for \$2.76 per enplanement or 19.3%; rental car and parking concessions account for \$9.63 per enplanement or 67.4%; food, beverage and gift concessions account for \$1.81 per enplanement or 12.7%; and ground transportation accounts for \$.09 per enplanement or .6%. In FY 2016, total enplanements of 530,903 generated airline and concession revenues of \$7,688,083; this compares to FY 2015 with 499,977 total enplanements generating \$7,084,674.

AIRPORT HIGHLIGHTS – FISCAL YEAR 2016 (continued)



CAPITAL AND LONG-TERM PLANNING

The Gallatin Airport Authority has a comprehensive 11-year Capital Improvement Plan. This plan is designed to accommodate the future capital needs of BZN within the financial capability of the Authority. Projects in the first five years of the plan are more defined with the projects in the later six years more fluid due to future unknowns. The Gallatin Airport Authority invested \$4.7 million in Capital Improvements during FY 2016 and over the next five years, the Gallatin Airport Authority expects to invest over \$51 million in capital improvements. A description of FY 2016 projects and the major projects planned for FY 2017 through FY 2021 follows.

Projects completed during FY 2016

- Environmental Assessment for Paved Parallel runway 11/29 – A finding of No Significant Impact (FONSI) was issued by the FAA in May 2016.
- North Terminal Island Expansion and East Terminal Apron Expansion for Deicing including 17,070 SY of asphalt pavement and associated storm drain, striping and signing.
- East Ramp Expansion including 11,810 SY of asphalt pavement, 4,167 SY of concrete pavement and associated storm drain.
- A second food and beverage concession location inside the concourse was constructed.

CAPITAL AND LONG-TERM PLANNING (continued)

Major projects planned for FY 2017 – 2021

Paved Runway 11/29 – FY 2017

An Environmental Analysis has been completed for the construction of a new 5,050' x 75' paved runway essentially parallel to our main runway. Construction was started in September 2016. Runway 11/29 will be constructed to B-II small aircraft standards. It will serve the slower, small Aircraft Approach Category A and B aircraft and gliders with an Airplane Design Group (ADG) II category and smaller. Small aircraft are those identified as having a maximum certificated takeoff weight of 12,000 pounds or less. Aircraft larger and faster aircraft than B-II small will continue to utilize the main runway 12/30. The new runway will provide separation of smaller and slower aircraft on runway 11/29 and faster and larger aircraft on main runway 12/30 increasing safety and efficiency of air traffic control at BZN. The overall cost of paved runway 11/29 including associated connection taxiways and a parallel taxiway is estimated at \$6,912,391 with AIP reimbursement funding spread over the FY 2016 – FY 2019 period.

<u>Project Cost</u>	<u>Authority</u>	<u>AIP Entitlements</u>
\$6,912,391	\$691,239	\$6,221,152

Main Taxiway & Runway 3/21 Pavement Rehabilitation – FY 2017 & FY 2018

The main taxiway system and crosswind runway 3/21 were last rehabilitated in 2001. In order to maintain pavement condition, we are rehabilitating these surfaces in FY 2017 and FY 2018 with AIP reimbursement spread over the two fiscal years. The estimated cost of this project is \$7,528,133. We anticipate funding for this project will include FAA Discretionary Funding as this is a high priority project.

<u>Project Cost</u>	<u>Authority</u>	<u>AIP Entitlements</u>	<u>AIP Discretionary</u>
\$7,528,133	\$752,814	\$2,010,257	\$4,765,062

Multi-use parking garage – FY 2018 & FY 2019

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

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

Main Runway 12/30 Pavement Rehabilitation – FY 2018

Runway 12/30 was last rehabilitated in 2003. In order to maintain pavement condition, we plan to rehabilitate the main runway in FY 2018. The estimated cost of this project is \$6,011,058. We anticipate funding for this project will include FAA Discretionary Funding as this is a high priority project.

<u>Project Cost</u>	<u>Authority</u>	<u>AIP Entitlements</u>	<u>AIP Discretionary</u>
\$6,011,058	\$601,105	\$3,289,953	\$2,120,000

CAPITAL AND LONG-TERM PLANNING (continued)

Terminal Concourse Expansion – FY 2020 & FY 2021

Continued growth in passenger enplanements, peak hour gate use and peak hour baggage handling capacity indicates there may be a need for a terminal concourse expansion and baggage system improvements within the next five years. We are in the initial phase of planning and if trends continue, we expect this project could begin within the next three years. In order to financially plan for this, we have included an initial budgetary amount of \$22,250,000 in our capital budget. This amount will be refined as we determine the actual need. We anticipate funding for this project will be through internally generated funds with eventual reimbursement through Passenger Facility Charge (PFC) collection and possibly a TSA baggage system grant if eligible.

<u>Project Cost</u>	<u>Authority</u>	<u>PFC's / TSA baggage screening grant</u>
\$22,250,000	\$2,225,000	\$20,025,000

OTHER INFORMATION

Independent Audit

For the fiscal year ended June 30, 2016, 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.

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, 2015.

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 34 experienced and customer friendly professionals that keep the airport in top condition, financially sound and prepared for any challenge. We are proud to serve the flying public and hope that this report will provide valuable information on the status of your airport. We welcome and value your input on how we can better serve you at Bozeman Yellowstone International Airport.

Respectfully submitted,



Brian Sprenger, A.A.E.
Airport Director



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



Troy Watling, CPA, CM
Assistant Director, Finance



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, 2015

Executive Director/CEO

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Gallatin Airport Authority (Authority), as of and for the year ended June 30, 2016, 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, 2016 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 21-29 and 51-54, 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 for the years ended June 30, 2016 and 2015 is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

Other information (continued)

We have also previously audited, in accordance with auditing standards generally accepted in United States of America, the financial statements of Gallatin Airport Authority as of and for the year ended June 30, 2015 (which is not presented herein), and we expressed an unmodified opinion on those financial statements. The audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of passenger facility charges collected and expended for the year ended June 30, 2015 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the June 30, 2015 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or tot the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of passenger facility charges collected and expended for the year ended June 30, 2015 is fairly stated in all material respects in relation to the financial statements from which it has been derived.

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 27, 2016 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

October 27, 2016

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GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

The following discussion and analysis provides an overview of the Gallatin Airport Authority's (Authority) financial statements for the fiscal year ended June 30, 2016 with selected comparative information for the fiscal year ended June 30, 2015. This discussion and analysis has been prepared by management and should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is structured as an enterprise fund and the financial statements are prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and 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 cash flows from operating activities and operating income.

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

Certain fiscal year 2015 balances have been reclassified to conform to the fiscal year 2016 presentation.

GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

FINANCIAL HIGHLIGHTS

Statement of Net Position

The following table represents a condensed summary of the Authority's statement of net position at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Current assets	\$ 24,647,983	\$ 20,271,275
Restricted assets - noncurrent	4,672,468	3,823,843
Capital assets, net - noncurrent	<u>86,907,870</u>	<u>85,780,781</u>
Total assets	<u>116,228,321</u>	<u>109,875,899</u>
Deferred outflows of resources	<u>160,299</u>	<u>170,556</u>
Current liabilities	1,642,772	1,471,323
Noncurrent liabilities	<u>15,351,981</u>	<u>15,695,531</u>
Total liabilities	<u>16,994,753</u>	<u>17,166,854</u>
Deferred inflows of resources	<u>182,358</u>	<u>451,074</u>
Net investment in capital assets	72,957,870	71,295,781
Restricted	4,672,468	3,823,843
Unrestricted	<u>21,581,171</u>	<u>17,308,903</u>
Total net position	<u>\$ 99,211,509</u>	<u>\$ 92,428,527</u>

Total assets were up by 5.8% from FY 2015 to FY 2016. Current assets rose by 21.6% mainly due to the increase in cash and cash equivalents. Noncurrent assets increased by 2.2% with the FY 2016 capital additions offset by depreciation.

Current liabilities increased by 11.7% from FY 2015 to FY 2016. The increase was primarily the result of higher construction payables at the end of FY 2016.

Noncurrent liabilities decreased by 2.2% from FY 2015 to FY 2016. The decrease relates to the reduction in bond principal.

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 7 in the notes to the financial statements for details.

Total net position improved by 7.3% from FY 2015 to FY 2016. A summary of the changes in net position follows.

GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

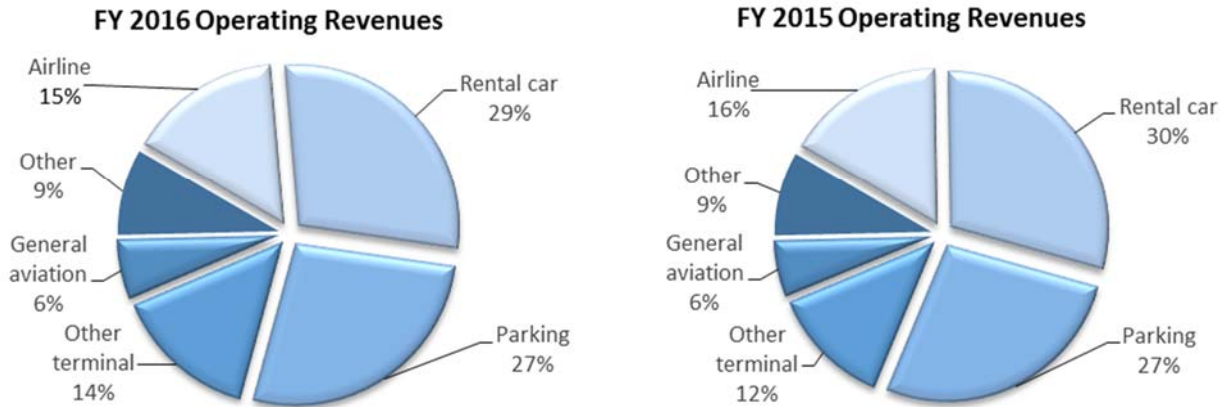
Statement of Revenues, Expenses and Changes in Net Position

The following table represents a condensed summary of the statement of revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015:

	2016	2015
Operating revenues	\$ 9,629,965	\$ 8,918,137
Operating expenses, excluding depreciation	(4,638,768)	(4,434,228)
Depreciation	(3,975,823)	(3,847,944)
Operating income	1,015,374	635,965
Net nonoperating revenues (expenses)	2,409,146	1,850,507
Capital contributions	3,358,462	1,998,828
Change in net position	6,782,982	4,485,300
Net position - beginning (2015 restated)	92,428,527	87,943,227
Net position - ending	\$ 99,211,509	\$ 92,428,527

Operating Revenues

The following charts illustrate the principal revenue sources and their percentage of total operating revenues for the years ended June 30, 2016 and 2015.



GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Operating Revenues (continued)

The following table shows the operating revenues for the years ended June 30, 2016 and 2015, and the percentage change.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Airline	\$ 1,467,582	\$ 1,458,820	0.6%
Rental car	2,743,357	2,623,508	4.6%
Parking	2,589,899	2,396,074	8.1%
Other terminal	1,383,942	1,109,858	24.7%
General aviation	569,666	518,771	9.8%
Air Cargo	41,070	38,740	6.0%
Other	834,449	772,366	8.0%
	<u>\$ 9,629,965</u>	<u>\$ 8,918,137</u>	<u>8.0%</u>

Airline revenues rose by 0.6% and consist primarily of landing fees and airline terminal rents. Landing fee revenues increased by 2.3% from \$605,493 to \$619,239. Landing fee rates remained the same however air carrier landings decreased by 2.5% due to the shift toward larger aircraft. Airline terminal rent remained flat at \$776,234.

Rental car revenues increased by 4.6% and includes on and off airport concessions fees and rents. The major contributor was on-airport rental car concessions which increased by 3.9% from \$2,418,366 to \$2,512,084. Transaction days (the number of days and vehicle is rented) increased by 9.2% to 467,805 days in FY 2016. The average cost-per-day of an on-airport rental car decreased by 4.9% to \$53.69. 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 8.1% and consists primarily of parking concessions revenues which increased by 7.6% from \$2,384,744 to \$2,565,608. The Authority had an agreement with Standard Parking to manage parking operations for the Authority through September 2015. Through a Request for Proposal Process, Republic Parking was awarded a five-year contract beginning October 2015. The Authority pays a percentage of parking revenues for the management services, which increased 4.7% from \$334,755 to \$350,474.

Other terminal concessions and rents revenues rose by 24.7% 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 26.8% from \$757,712 to \$961,063 due to passenger traffic and the addition of a second food & 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 beginning June 1, 2015.

GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Operating Revenues (continued)

General aviation revenues increased by 9.8%. General aviation landing fees increased by 7.6% from \$122,994 to \$132,333. Fuel flowage fees increased by 11.1% from \$127,000 to \$141,066. Tie down fees increased by 11.1% from \$34,423 to \$38,240. The growth in these areas can be attributed primarily to increases in general aviation operations.

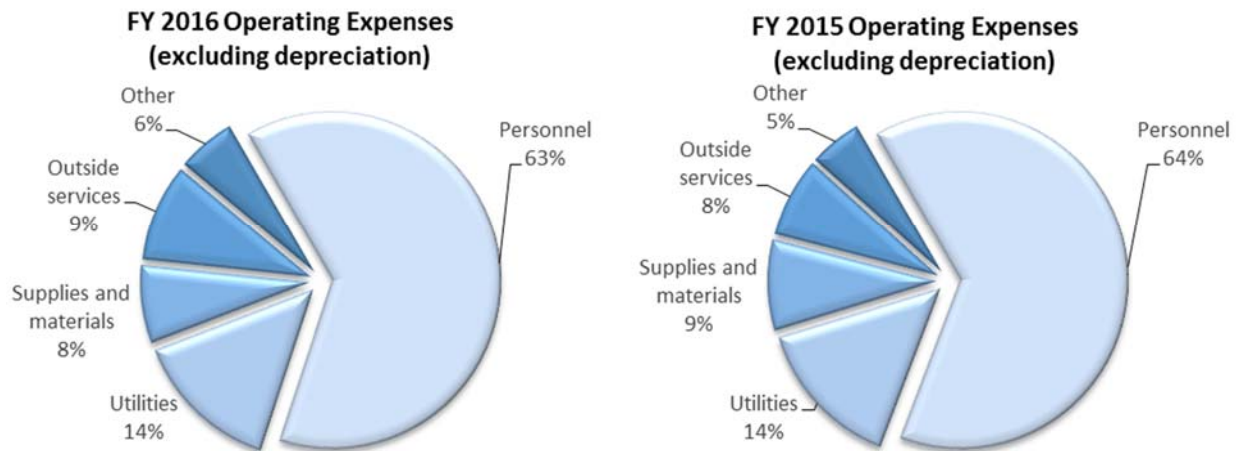
Air cargo revenues were essentially flat with an increase of 6.0%.

Other operating revenues increased by 8.0% and consist of revenues from the consolidated rental car facility, the customs facility, the law enforcement reimbursement program, and other land/building rents. The majority of the increase is due to activity at the consolidated rental car and customs facilities.

- Consolidated rental car facility revenues increased by 9.0% from \$337,377 to \$367,606. The majority of these revenues is from the operating portion of the customer facility charges which totaled \$350,854 and \$321,273 in FY 2016 and FY 2015, respectively. The increase is directly related to the increase in rental car activity.
- Customs facility revenues decreased by 2.4% from \$129,086 to \$126,035 and is due to a decrease in international landings requiring customs services.

Operating Expenses

The following charts illustrate the principal operating expenses (excluding depreciation) and their percentage of total operating expenses for the years ended June 30, 2016 and 2015.



GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

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 2016 operating expenses (excluding depreciation) increased 4.6% from \$4,434,228 in FY 2015 to \$4,638,768 in FY 2016.

The following table shows the operating expenses for the years ended June 30, 2016 and 2015, and the percentage change.

	2016	2015	Change
Personnel	\$ 2,940,619	\$ 2,844,738	3.4%
Utilities	654,428	643,980	1.6%
Supplies and materials	347,314	381,268	-8.9%
Outside services	436,833	340,761	28.2%
Insurance	91,754	88,500	3.7%
Other	167,820	134,981	24.3%
	<u>4,638,768</u>	<u>4,434,228</u>	<u>4.6%</u>
Depreciation	<u>3,975,823</u>	<u>3,847,944</u>	<u>3.3%</u>
	<u>\$ 8,614,591</u>	<u>\$ 8,282,172</u>	<u>4.0%</u>

Personnel expenses increased by 3.4%. The increase is due to annual wage adjustments and the addition of a full-time position.

Supplies and materials expenses decreased by 8.9% due mainly to fewer non-capital improvement projects and de-icing chemicals used on the airfield.

Outside services expenses increased by 28.2% due primarily to several large repairs and noncapital projects during the year requiring outside expertise.

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

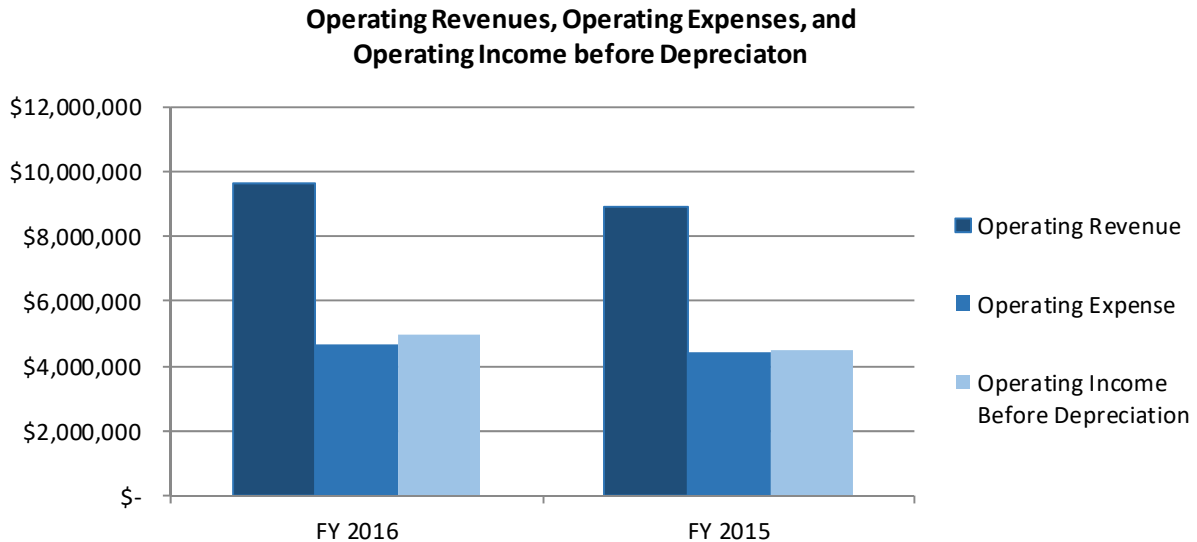
Other expense, consisting primarily of overhead costs, increased by 24.3%. The increase was attributed to IT professional services.

Depreciation expense increased by 3.3% and is attributable to new depreciable assets placed in service during FY 2016.

GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Operating Income (before depreciation)

FY 2016 operating income before depreciation was \$4,991,197, up 11.3% compared to FY 2015. The increase in operating expenses of 4.6% was well below the 11.3% growth in operating revenue as reflected in the chart below.



Nonoperating Revenues and Capital Contributions

Nonoperating revenues increased by 6.3% from FY 2015 to FY 2016, and consist of passenger facility charges, customer facility charges, interest income and non-capital grants.

Passenger facility charges (PFC) revenues increased by 7.1% from \$1,939,344 in FY 2015 to \$2,076,082 in FY 2016, and is attributable to passenger traffic growth.

Customer facility charges, capital (CFC) revenues increased by 17.1% from \$749,939 in FY 2015 to \$878,320 in FY 2016, commensurate with increased rental car activity.

Interest income decreased by 26.8% primarily due to the consolidated rental car facility investment principal reduction. Non-capital grants decreased by 46.4% primarily due to the reduction in grant revenue from the State of Montana related to the Public Employee Retirement System (PERS).

Capital contributions increased by 68.0% from \$1,998,828 in FY 2015 to \$3,358,462 in FY 2016.

- Airport Improvement Program (AIP) capital contributions increased by 72.9% from \$1,942,383 in FY 2015 to \$3,358,462 in FY 2016.
- In FY 2015 the Authority received American Recovery and Reinvestment Act (ARRA) grant contributions of \$56,445. There were no contributions from this grant in FY 2016.

GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Nonoperating Expenses

Nonoperating expenses decreased by 35.1% from FY 2015 to FY 2016, and consist mainly of payments to other agencies and interest expense. Payment to other agencies decreased from \$399,713 in FY 2015 to \$84,230 in FY 2016, and represents the Authority's contributions toward the interstate interchange project which was substantially complete at June 30, 2015. Interest expense for the bonds decreased by 2.5% from \$623,636 to \$608,036 due to the declining balance of the outstanding principal.

Statement of Cash Flows

The following table represents a condensed summary of the statement of cash flows for the fiscal years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash provided by operating activities	\$ 8,794,333	\$ 9,132,708
Cash used by operating activities	<u>(4,711,929)</u>	<u>(4,441,925)</u>
Net cash provided by operating activities	4,082,404	4,690,783
Net cash used by noncapital financing activities	(78,530)	(421,501)
Net cash provided (used) by capital and related financing activities	416,606	(286,609)
Net cash provided by investing activities	<u>93,325</u>	<u>150,354</u>
Net increase in cash and cash equivalents	4,513,805	4,133,027
Cash and cash equivalents, beginning of year	<u>23,112,159</u>	<u>18,979,132</u>
Cash and cash equivalents, end of year	<u>\$ 27,625,964</u>	<u>\$ 23,112,159</u>

Cash and cash equivalents increased 19.5% from FY 2015 to FY 2016 primarily due to the net cash provided by operations. Net cash used by noncapital financing activities in FY 2016 primarily relates the Airport's contribution to the interstate interchange project. Net cash provided by capital and related financing activities includes capital asset acquisitions and 2009 bond debt service, offset by related funding receipts. Net cash provided by investing activities includes interest received.

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

GALLATIN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Capital Projects

The Authority expended \$4,702,061 on capital projects in FY 2016 compared to \$4,704,866 in FY 2015. Major capital projects activity in FY 2016 included an environmental assessment for a parallel runway, a deicing and storm water management project, expansion of the East ramp, and the addition of a food and beverage concession inside the concourse.

Note 3 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 6 in the notes to the financial statements describes the bonds in greater detail and includes a summary of the repayment structure.

Request for Information

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

GALLATIN AIRPORT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2016

CURRENT ASSETS	
Cash and cash equivalents	\$ 23,365,586
Accounts receivable, net	1,239,854
Grants receivable	6,652
Prepaid expenses	35,891
	<u>24,647,983</u>
NONCURRENT ASSETS	
Restricted assets:	
Cash and cash equivalents	4,260,378
Passenger facility charges receivable	377,405
Customs receivable	34,685
Capital assets:	
Nondepreciable capital assets	16,970,334
Depreciable capital assets, net	69,937,536
	<u>91,580,338</u>
TOTAL ASSETS	<u>116,228,321</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>160,299</u>
CURRENT LIABILITIES	
Accounts payable	561,461
Deposits	100,967
Accrued payroll liabilities	319,523
Prepayments - rents	110,821
Current portion of 2009 revenue bonds payable	550,000
	<u>1,642,772</u>
NONCURRENT LIABILITIES	
Net pension liability	1,951,981
2009 revenue bonds payable, less current portion	13,400,000
	<u>15,351,981</u>
TOTAL LIABILITIES	<u>16,994,753</u>
DEFERRED INFLOWS OF RESOURCES	<u>182,358</u>
NET POSITION	
Net investment in capital assets	72,957,870
Restricted - capital projects and debt service	4,530,178
Restricted - customs	142,290
Unrestricted	21,581,171
	<u>21,581,171</u>
TOTAL NET POSITION	<u>\$ 99,211,509</u>

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Airline	\$ 1,467,582
Rental car concessions	2,743,357
Parking	2,589,899
Other terminal concessions and rents	1,383,942
General aviation	569,666
Air cargo	41,070
Other	834,449
	<u>9,629,965</u>
OPERATING EXPENSES	
Personnel	2,940,619
Utilities	654,428
Supplies and materials	347,314
Outside services	436,833
Insurance	91,754
Other	167,820
	<u>4,638,768</u>
OPERATING INCOME BEFORE DEPRECIATION	4,991,197
Depreciation expense	<u>3,975,823</u>
OPERATING INCOME	<u>1,015,374</u>
NONOPERATING REVENUES (EXPENSES)	
Passenger facility charges	2,076,082
Customer facility charges	878,320
Interest income	93,325
Other nonoperating revenue	54,035
Payments to other agencies	(84,230)
Other nonoperating expenses	(350)
Interest expense	<u>(608,036)</u>
	<u>2,409,146</u>
CAPITAL CONTRIBUTIONS	
Federal grants	<u>3,358,462</u>
CHANGE IN NET POSITION	6,782,982
Net position, beginning of year	<u>92,428,527</u>
NET POSITION, END OF YEAR	<u>\$ 99,211,509</u>

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating cash receipts from customers	\$ 8,794,333
Cash payments to suppliers for goods and services	(1,771,107)
Cash payments to employees for services	(2,940,822)
	<u>4,082,404</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments to other agencies	(84,230)
Nonoperating grant receipts	5,700
	<u>(78,530)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(4,702,061)
Federal grant receipts	3,361,947
Passenger facility charge receipts	2,021,436
Customer facility charge receipts	878,320
Principal payment on capital debt	(535,000)
Bond interest payments	(608,036)
	<u>416,606</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>93,325</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,513,805
Cash and cash equivalents, beginning	<u>23,112,159</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 27,625,964</u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 1,015,374
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	3,975,823
Changes in current assets and liabilities:	
Receivables, customers	(660,983)
Prepaid expenses	616
Accounts payable	(77,597)
Deposits	(125,011)
Prepayments - rents	(49,638)
Accrued payroll liabilities	3,820
Cash flows from operating activities	<u>\$ 4,082,404</u>

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Measurement Focus and Basis of Accounting

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

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

Cash and Cash Equivalents

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

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 2016.

Capital Assets

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

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

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

Compensated Absences

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

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Pension Liability and Deferred Outflows/Inflows of Resources

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

Net Position

Proprietary fund net position is divided into three components:

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

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

Operating Revenues and Expenses

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

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

Budget

The Authority annually adopts a non-legally binding budget.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

New Pronouncements

For the fiscal year June 30, 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement revises the definition of fair value, identifies assets and liabilities that should be measured at fair value, requires new measurement approaches, and expands fair value disclosures. There was no impact to the Authority's net position from the implementation of this standard.

NOTE 2. CASH AND INVESTMENTS

The composition of cash and investments on June 30, 2016 was as follows:

	<u>Cost</u>	<u>Market Value</u>
Cash and cash equivalents		
Operating account	\$ 18,535,825	\$ 18,535,825
Capital account	4,829,761	4,829,761
	<u>23,365,586</u>	<u>23,365,586</u>
Restricted cash and cash equivalents		
Customs	142,290	142,290
Debt service account	190,331	190,331
STIP (described below)		
Operating reserve	1,220,271	1,220,271
Renewal and replacement reserve account	250,000	250,000
Debt service reserve account	1,144,120	1,144,120
PFC reserve account	1,313,366	1,313,366
	<u>4,260,378</u>	<u>4,260,378</u>
	<u>\$ 27,625,964</u>	<u>\$ 27,625,964</u>

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits

At June 30, 2016, the carrying amount of the Authority's deposits in local banks was \$25,011,573. 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, 2016 was \$2,614,391. This investment in STIP is considered a cash equivalent.

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. The STIP investment portfolio consists of securities with maximum maturity of 2 years.

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, 2016 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 2016 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2016 financial statements is available online at the Montana Board of Investments' website.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3. CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2016:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>
Nondepreciable capital assets:				
Land	\$ 11,575,099	\$ -	\$ -	\$ 11,575,099
Construction in progress *	<u>5,566,873</u>	<u>5,175,504</u>	<u>(5,347,142)</u>	<u>5,395,235</u>
Total nondepreciable assets	<u>17,141,972</u>	<u>5,175,504</u>	<u>(5,347,142)</u>	<u>16,970,334</u>
Depreciable capital assets:				
Runways & improvements	37,741,583	4,790,149	(617,693)	41,914,039
Buildings & equipment	76,395,589	607,832	(1,139,961)	75,863,460
Intangibles	<u>460,840</u>	<u>-</u>	<u>-</u>	<u>460,840</u>
Total depreciable capital assets	114,598,012	5,397,981	(1,757,654)	118,238,339
Less accumulated depreciation	<u>(45,959,203)</u>	<u>(3,975,823)</u>	<u>1,634,223</u>	<u>(48,300,803)</u>
Total depreciable capital assets, net	<u>68,638,809</u>	<u>1,422,158</u>	<u>(123,431)</u>	<u>69,937,536</u>
Total capital assets, net	<u>\$ 85,780,781</u>	<u>\$ 6,597,662</u>	<u>\$ (5,470,573)</u>	<u>\$ 86,907,870</u>

* Construction in progress at June 30, 2016 consists mainly of the costs associated with the taxiway, apron and ramp projects.

NOTE 4. 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 5. LONG TERM LIABILITIES

The following is a summary of long-term liabilities activity for the year ended June 30, 2016:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 14,485,000	\$ -	\$ (535,000)	\$ 13,950,000	\$ 550,000
Net pension liability	<u>1,745,531</u>	<u>206,450</u>	<u>-</u>	<u>1,951,981</u>	<u>-</u>
Total long term liabilities	<u>\$ 16,230,531</u>	<u>\$ 206,450</u>	<u>\$ (535,000)</u>	<u>\$ 15,901,981</u>	<u>\$ 550,000</u>

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6. REVENUE BONDS

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

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

Fiscal Year	Principal Amount	Interest Rate	Interest Amount	Total Principal and Interest
2017	\$ 550,000	3.200%	\$ 591,986	\$ 1,141,986
2018	565,000	3.400%	574,386	1,139,386
2019	585,000	3.500%	555,176	1,140,176
2020	605,000	3.625%	534,701	1,139,701
2021	630,000	3.750%	512,770	1,142,770
2022-2026	3,530,000	3.850-4%	2,176,708	5,706,708
2027-2031	4,360,000	4-4.375%	1,350,015	5,710,015
2032-2034	3,125,000	4.375-4.7%	298,215	3,423,215
	<u>\$ 13,950,000</u>		<u>\$ 6,593,957</u>	<u>\$ 20,543,957</u>

NOTE 7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Net Pension Liability

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 (PERS). Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective NPL that is associated with the non-State employer.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

<u>As of Reporting Date</u>	<u>Net Pension Liability as of 6/30/2016</u>	<u>Net Pension Liability as of 6/30/2015</u>	<u>Percent of Collective NPL as of 6/30/16</u>	<u>Percent of Collective NPL as of 6/30/15</u>	<u>Change in Percent of Collective NPL</u>
Employer's proportionate share	\$ 1,951,981	\$ 1,745,531	0.139639%	0.140090%	-0.000451%
State of Montana proportionate share associated with employer	<u>\$ 23,977</u>	<u>\$ 21,316</u>	<u>0.001715%</u>	<u>0.001711%</u>	<u>0.000004%</u>
Total	<u>\$ 1,975,958</u>	<u>\$ 1,766,847</u>	<u>0.141354%</u>	<u>0.141801%</u>	<u>-0.000447%</u>

The Table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers. As of the employer's reporting date the employer recorded a liability of \$1,951,981 and the employer's proportionate share was 0.139639 percent.

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

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

Changes in proportionate share: There have been no significant changes to the employer's proportionate share since the measurement date of the collective NPL.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Pension Expense

	Pension Expense as of 6/30/16
Employer's proportionate share	\$ 129,375
State of Montana proportionate share associated with employer	1,490
Total	\$ 130,865

At June 30, 2016, the employer recognized its proportionate share of the PERS' Pension Expense of \$130,865. The employer also recognized grant revenue of \$1,490 for the support provided by the State of Montana for the proportionate share of the Pension Expense that is associated with the employer, and grant revenue of \$46,845 from the Coal Tax Fund.

Recognition of Deferred Inflows and Outflows

At June 30, 2016, the employer reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ -	\$ 11,810
Changes in Assumptions	-	-
Actual vs. Expected Investment Earnings	-	165,256
Changes in proportion share and differences between employer contributions and proportionate share of contributions	9,228	5,292
Employer contributions subsequent to the measurement date - # FY 2016 contributions	151,071	-
Total	\$ 160,299	\$ 182,358

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2017.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

For the Reporting Year Ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2017	\$ (71,544)
2018	\$ (71,544)
2019	\$ (73,022)
2020	\$ 42,980
2021	\$ -
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 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. 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.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. 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% 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.

Overview of Contributions

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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 an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and 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.
 - c. The portion of employer contributions allocated to the PCR are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions:
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund.

Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		Local Government	
	Hired < 07/01/11	hired after > 07/01/11	Employer	State of Montana
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%

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Stand-Alone Statements

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

CAFR information including our stand alone financial statements can be found at the following website:

<http://mpera.mt.gov/annualReports.shtml>

The latest actuarial valuation and experience study can be found at the following website:

<http://mpera.mt.gov/actuarialvaluations.shtml>

Actuarial Assumptions

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- Investment return (net of admin expense) 7.75%
- Admin expense as % of payroll 0.27%
- General wage growth * 4.00%
- * Includes inflation at 3.00%
- Merit increases 0% to 6%
- 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% 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 are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Discount Rate

The discount rate used to measure the TPL was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. 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.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash equivalents	2.00%	-0.25%
Domestic equity	36.00%	4.55%
Foreign equity	18.00%	6.10%
Fixed income	24.00%	1.25%
Private equity	12.00%	8.00%
Real estate	8.00%	4.25%

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Sensitivity Analysis

<u>As of Reporting Date</u>	<u>1.0% Decrease (6.75%)</u>	<u>Current Discount Rate</u>	<u>1.0% Increase (8.75%)</u>
Employer's Net Pension Liability	\$ 3,009,533	\$ 1,951,981	\$ 1,058,904

The above table presents the NPL calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

Summary of Significant Accounting Policies

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

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8. NET POSITION

Net position consists of the following as of June 30, 2016:

Net investment in capital assets:

Capital assets \$ 86,907,870

Less: current liabilities

Current portion of bonds payable for amount invested in capital assets (550,000)

Less: long-term liabilities

Bonds payable for amount invested in capital assets, less current portion (13,400,000)

Total net investment in capital assets 72,957,870

Restricted net position:

Capital projects and debt service 4,530,178

Customs 142,290

Total restricted net position 4,672,468

Unrestricted net position 21,581,171

Total net position \$ 99,211,509

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9. 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, 2016. Minimum rentals on non-cancelable leases for the next five years ending June 30 are approximately as follows:

2017	\$ 3,994,367
2018	\$ 3,212,250
2019	\$ 2,927,750
2020	\$ 2,924,669
2021	\$ 1,416,925

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 \$3,617,666 for the year ended June 30, 2016 and were in excess of the minimum annual guarantee.

NOTE 10. PASSENGER FACILITY CHARGE PROGRAM

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

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

The active PFC approved project during the year ended June 30, 2016 was PFC 09-05-C-00-BZN. The PFC project No. 09-05-C-00-BZN effective July 1, 2011, authorized a charge of \$4.50 per enplaned passenger and total project expenditures of \$29,000,000. This project expires March 1, 2029.

GALLATIN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11. CUSTOMER FACILITY CHARGES

Customer facility charges (CFCs) are levied by the Authority pursuant to an agreement with the rental car companies serving the Authority. The CFC rate was \$2.75 per contract rental day as of June 30, 2016.

NOTE 12. 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, 2016 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, 2016 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, 2016 were \$1,800.

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

NOTE 13. 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, 2016.

NOTE 14. RISK MANAGEMENT

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

NOTE 15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 27, 2016, the date on which these financial statements were available to be issued.

GALLATIN AIRPORT AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 PENSION SCHEDULES
 FOR THE LAST TEN FISCAL YEARS *

	2016	2015
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
Employer's proportion of the net pension liability as a percentage	0.139639%	0.140090%
Employer's proportion of the net pension liability as an amount	\$ 1,951,981	\$ 1,745,531
State of Montana's proportionate share of the Net Pension Liability associated with the Employer	\$ 23,977	\$ 21,316
Total	\$ 1,975,958	\$ 1,766,847
Employer's covered payroll	\$ 2,113,635	\$ 2,033,318
Employer's proportionate share of the Net Pension Liability as a percentage as of its covered payroll	92.352%	85.846%
Plan fiduciary net position as a percentage of the Total Pension Liability	78.4%	79.9%

SCHEDULE OF CONTRIBUTIONS

Contractually required contributions	\$ 151,071	\$ 149,531
Contributions in relation to the contractually required contributions	\$ 151,071	\$ 149,531
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered payroll	\$ 2,113,635	\$ 2,033,318
Contributions as a percentage of covered payroll	7.147%	7.354%

** The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

GALLATIN AIRPORT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

CHANGES OF BENEFIT TERMS

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

2013 Legislative Changes:

Working Retirees – House Bill 95 – PERS, SRS, and FURS, effective July 1, 2013

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap – House Bill 97, effective July 1, 2013

All PERS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.

All bonuses paid to PERS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

House Bill 454 – Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

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 all other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
 - a. 1.5% each year PERS is funded at or above 90%;
 - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:

General Revisions – House Bill 101, effective January 1, 2016

GALLATIN AIRPORT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

Second Retirement Benefit

1. 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.
2. 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.
3. 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.
4. 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 January 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.

GALLATIN AIRPORT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

Change in Actuarial Assumption and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB 68:

- Admin Expense as % of Payroll 0.27%

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

- General Wage Growth * 4.00%
 * includes inflation at 3.00%
- Investment rate of return 7.75 percent, net of pension plan investment
 Expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

- General Wage Growth * 4.25%
 * includes inflation at 3.00%
- Merit increase 0% to 7.3%
- Investment rate of return 8.00 percent, net of pension plan investment
 expense, and including inflation
- Asset valuation method 4-year smoothed market
- Actuarial cost method Entry age
- Amortization method Level percentage of pay, open

STATISTICAL SECTION



GALLATIN AIRPORT AUTHORITY

STATISTICAL SECTION INTRODUCTION

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

Contents Page

Financial Trends 57-58

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

Revenue Capacity 59

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

Debt Capacity 60

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

Operating Information 61-65

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

Demographic and Economic Information 66-67

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

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating revenues	\$ 9,629,965	8,918,137	8,192,195	7,271,248	7,020,641	6,409,745	5,213,902	5,116,543	5,189,143	4,732,686
Operating expenses, excluding depreciation	(4,638,768)	(4,434,228)	(4,220,875)	(3,738,986)	(3,753,073)	(3,395,632)	(2,924,352)	(2,853,637)	(2,915,127)	(2,642,123)
Operating income, before depreciation	4,991,197	4,483,909	3,971,320	3,532,262	3,267,568	3,014,113	2,289,550	2,262,906	2,274,016	2,090,563
Depreciation	(3,975,823)	(3,847,944)	(3,838,984)	(3,808,951)	(3,138,429)	(2,804,084)	(2,349,507)	(2,219,575)	(1,932,554)	(1,843,119)
Operating income (loss)	1,015,374	635,965	132,336	(276,689)	129,139	210,029	(59,957)	43,331	341,462	247,444
Net nonoperating revenues (expenses)	2,409,146	(838,776)	(492,652)	(2,532,583)	(375,885)	(261,015)	(69,751)	357,407	577,630	659,930
Capital contributions	3,358,462	4,688,111	3,453,594	5,458,916	6,171,495	10,943,695	7,973,867	937,563	4,054,186	961,176
Change in net position	\$ 6,782,982	4,485,300	3,093,278	2,649,644	5,924,749	10,892,709	7,844,159	1,338,301	4,973,278	1,868,550
Net position										
Net investment in capital assets	\$ 72,957,870	71,295,781	70,699,825	68,139,366	70,950,755	68,968,216	51,862,033	45,450,294	41,407,733	39,013,966
Restricted	4,672,468	3,823,843	3,889,792	3,688,614	4,321,487	3,743,265	1,374,009	252,876	623,900	318,417
Unrestricted	21,581,171	17,308,903	15,427,140	15,095,499	9,262,045	5,898,057	14,480,787	14,169,500	16,502,736	14,228,708
Total net position	\$ 99,211,509	92,428,527	90,016,757	86,923,479	84,534,287	78,609,538	67,716,829	59,872,670	58,534,369	53,561,091

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Cash Flows From										
Operating Activities										
Receipts from customers	\$ 8,794,333	9,132,708	8,310,094	6,797,025	7,374,859	6,141,263	5,251,111	5,173,558	5,049,305	4,909,182
Payments to suppliers	(1,771,107)	(1,617,215)	(1,283,050)	(1,301,140)	(1,938,020)	(1,856,251)	(1,472,452)	(1,456,709)	(1,730,667)	(1,586,757)
Payments to employees	(2,940,822)	(2,824,710)	(2,548,808)	(2,418,829)	(1,683,672)	(1,581,555)	(1,424,946)	(1,445,208)	(1,136,575)	(1,012,539)
	4,082,404	4,690,783	4,478,236	3,077,056	3,753,167	2,703,457	2,353,713	2,271,641	2,182,063	2,309,886
Cash Flows from noncapital financing activities										
	(78,530)	(421,501)	2,472	(1,763,498)	-	-	-	-	18,000	18,000
Cash from capital and related financing activities										
Capital asset purchases	(4,702,061)	(4,704,866)	(5,086,718)	(784,655)	(5,169,833)	(26,337,569)	(18,073,137)	(5,960,800)	(4,326,322)	(1,078,362)
Grant receipts (payments)	3,361,947	2,939,657	3,034,925	2,675,653	4,347,500	6,281,230	5,915,850	(17,821)	3,384,988	1,168,412
Passenger facility charge receipts	2,021,436	1,872,297	1,825,957	1,683,650	1,505,714	1,442,664	1,307,979	839,432	825,526	767,227
Customer facility charge receipts	878,320	749,939	632,988	582,553	450,436	420,987	224,565	-	-	-
Bond proceeds received	-	-	-	-	-	-	16,000,000	-	-	-
Bond principal payments	(535,000)	(520,000)	(505,000)	(490,000)	-	-	-	-	-	-
Bond interest payments	(608,036)	(623,636)	(638,786)	(653,486)	(653,486)	(653,486)	(399,353)	-	-	-
Other receipts (payments)	-	-	55,790	-	560,687	-	(339,645)	(16,642)	(316,198)	-
	416,606	(286,609)	(680,844)	3,013,715	1,041,018	(18,846,174)	4,636,259	(5,155,831)	(432,006)	857,277
Cash from investing activities										
Investments purchased	-	-	-	(22,755)	(2,803)	(36,380)	(1,144,120)	-	(10,500,000)	-
Interest received	93,325	127,567	181,764	269,044	309,823	419,569	198,526	33,069	487,110	641,930
Proceeds from sale of investments	-	-	-	1,148,636	-	7,456,337	3,633,362	-	-	-
Reclassification of investments	-	22,787	-	-	-	-	-	-	-	-
	93,325	150,354	181,764	1,394,925	307,020	7,839,526	2,687,768	33,069	(10,012,890)	641,930
Net increase (decrease) in cash and cash equivalents										
	4,513,805	4,133,027	3,981,628	5,722,198	5,101,205	(8,303,191)	9,677,740	(2,851,121)	(8,244,833)	3,827,093
Cash and cash equivalents, beginning of year										
	23,112,159	18,979,132	14,997,504	9,275,306	4,174,101	12,477,292	2,799,552	5,650,673	13,895,506	10,068,413
Cash and cash equivalents, end of year										
	\$ 27,625,964	23,112,159	18,979,132	14,997,504	9,275,306	4,174,101	12,477,292	2,799,552	5,650,673	13,895,506

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Airline Revenues										
Landing fees	\$ 619,239	605,493	572,559	571,210	555,505	521,056	466,433	477,578	524,409	464,372
Terminal rentals	848,343	853,327	817,776	791,456	788,265	736,511	692,306	719,375	678,325	650,734
	1,467,582	1,458,820	1,390,335	1,362,666	1,343,770	1,257,567	1,158,739	1,196,953	1,202,734	1,115,106
Non-airline Revenues										
Rental car	2,743,357	2,623,508	2,416,367	2,095,095	2,071,122	1,961,511	1,574,006	1,550,428	1,609,007	1,519,780
Parking	2,589,899	2,396,074	2,112,716	1,819,414	1,673,893	1,433,181	1,090,261	1,106,730	1,060,472	834,200
Other terminal concessions and rents	1,383,942	1,109,858	1,030,027	923,605	828,981	626,341	473,092	462,942	472,180	490,306
General aviation	569,666	518,771	482,364	461,657	454,478	457,754	436,800	415,110	474,284	411,590
Air cargo	41,070	38,740	38,364	37,685	36,719	36,788	36,505	30,894	29,299	29,713
Other	834,449	772,366	722,022	571,126	611,678	636,603	444,499	353,486	341,167	331,991
Total operating revenues	\$ 9,629,965	8,918,137	8,192,195	7,271,248	7,020,641	6,409,745	5,213,902	5,116,543	5,189,143	4,732,686
Total scheduled enplanements	529,481	498,363	456,436	438,539	406,813	385,031	364,198	342,582	351,214	334,505
Airline cost per enplanement	\$ 2.77	2.93	3.05	3.11	3.30	3.27	3.18	3.49	3.42	3.33
<u>Airline Rates and Charges</u>										
Landing fee (per 1,000 lbs. over 12,500 GLW)	\$ 1.06	1.06	1.14	1.11	1.11	1.15	1.12	1.12	1.03	1.05
Terminal rents (per sq. ft. per year):										
Finished	\$ 22.27	22.27	22.27	22.27	22.27	22.27	21.62	21.06	21.89	20.98
Unfinished	\$ 12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.59
Jetway rent (per use)	\$ 10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

Source: Gallatin Airport Authority records

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

	2016	2015	2014	2013	2012	2011	2010	2009 *	2008 *	2007 *
Operating revenue	\$ 9,629,965	8,918,137	7,824,487	6,975,180	7,020,641	6,409,745	5,213,902	5,116,543	5,189,143	4,732,686
Operating expenses										
excluding depreciation	(4,638,768)	(4,434,228)	(3,947,091)	(3,722,344)	(3,736,433)	(3,378,990)	(2,907,710)	(2,836,995)	(2,915,127)	(2,642,123)
Net nonoperating										
revenues (expenses)	2,409,146	1,100,568	1,368,009	(539,543)	1,207,184	1,212,298	1,212,072	1,312,791	1,395,513	1,432,122
Net revenue available										
for debt service	\$ 7,400,343	5,584,477	5,245,405	2,713,293	4,491,392	4,243,053	3,518,264	3,592,339	3,669,529	3,522,685
Debt service on										
2009 revenue bonds										
Principal	\$ 535,000	520,000	505,000	490,000	-	-	-	-	-	-
Interest	608,036	623,636	638,786	653,486	653,486	653,486	399,353	-	-	-
	\$ 1,143,036	1,143,636	1,143,786	1,143,486	653,486	653,486	399,353	-	-	-
Debt service coverage on										
2009 revenue bonds	6.47	4.88	4.59	2.37	6.87	6.49	8.81	-	-	-
Outstanding debt										
2009 revenue bonds	\$ 13,950,000	14,485,000	15,005,000	15,510,000	16,000,000	16,000,000	16,000,000	-	-	-
Enplaned passengers	530,903	499,977	457,716	440,203	408,199	386,092	365,210	342,714	351,214	335,276
Outstanding debt per										
enplaned passenger	\$ 26.28	28.97	32.78	35.23	39.20	41.44	43.81	-	-	-

* There was no outstanding debt FY 2007 through FY 2009

Source: Gallatin Airport Authority records

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<u>Aircraft Operations</u>										
Air carrier	9,990	10,388	8,642	8,708	7,908	7,587	7,307	7,815	8,261	7,572
Air taxi	8,923	8,336	9,454	9,222	9,470	10,385	9,269	9,189	10,952	10,717
General aviation itinerant	30,456	30,135	28,178	27,875	28,387	25,828	26,608	27,608	31,931	30,398
Military	340	220	315	262	285	173	264	255	635	173
Total itinerant	49,709	49,079	46,589	46,067	46,050	43,973	43,448	44,867	51,779	48,860
General aviation local	30,920	30,653	31,893	30,770	36,066	26,050	23,693	30,012	30,478	31,449
Total aircraft operations	80,629	79,732	78,482	76,837	82,116	70,023	67,141	74,879	82,257	80,309
<u>Total Passengers</u>										
Enplanements	530,903	499,977	457,716	440,203	408,199	386,092	365,210	342,714	351,214	335,276
Deplanements	529,829	497,664	459,844	437,043	409,910	385,157	362,838	340,563	351,281	335,598
Total	1,060,732	997,641	917,560	877,246	818,109	771,249	728,048	683,277	702,495	670,874
Growth	6.3%	8.7%	4.6%	7.2%	6.1%	5.9%	6.6%	-2.7%	4.7%	5.9%

Source: Gallatin Airport Authority records

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Delta										
Enplanements	223,414	202,090	187,650	169,026	161,312	157,896	118,958	82,093	93,478	99,813
Load factor	85.5%	82.8%	86.6%	86.5%	86.4%	82.0%	89.1%	73.7%	77.5%	75.8%
Northwest										
Enplanements	-	-	-	-	-	-	36,966	75,426	92,542	91,989
Load factor	-	-	-	-	-	-	86.9%	71.4%	77.1%	75.5%
United										
Enplanements	177,095	159,892	149,967	136,568	123,676	128,789	119,649	98,560	95,352	94,554
Load factor	83.2%	80.3%	87.2%	85.5%	84.5%	80.2%	89.7%	77.9%	72.5%	89.7%
Alaska										
Enplanements	81,601	70,012	52,949	47,701	43,906	40,430	37,070	31,081	39,626	43,690
Load factor	84.3%	82.7%	84.4%	80.5%	79.1%	71.1%	87.1%	71.7%	71.6%	107.5%
Frontier										
Enplanements	16,222	37,221	36,312	47,583	45,777	34,916	35,847	42,528	27,039	-
Load factor	87.8%	90.2%	88.1%	80.7%	80.0%	80.8%	69.5%	53.8%	304.9%	0.0%
Allegiant										
Enplanements	29,478	29,148	29,558	37,661	32,142	23,000	15,708	12,894	3,025	-
Load factor	88.0%	86.9%	88.6%	91.2%	89.7%	88.6%	97.9%	113.1%	0.0%	0.0%
American										
Enplanements	1,671	-	-	-	-	-	-	-	-	-
Load factor	75.8%	-	-	-	-	-	-	-	-	-
Big Sky										
Enplanements	-	-	-	-	-	-	-	-	152	4,459
Load factor	-	-	-	-	-	-	-	-	4.4%	47.2%
Total scheduled										
enplanements	529,481	498,363	456,436	438,539	406,813	385,031	364,198	342,582	351,214	334,505
Average load factor	84.7%	82.7%	86.8%	85.2%	84.5%	80.3%	86.8%	71.8%	79.9%	81.8%
Charter enplanements										
	1,422	1,614	1,280	1,664	1,386	1,061	1,012	132	-	771
Total enplanements										
	530,903	499,977	457,716	440,203	408,199	386,092	365,210	342,714	351,214	335,276

Source: Gallatin Airport Authority records

GALLATIN AIRPORT AUTHORITY
 BUDGETED EMPLOYEES BY DEPARTMENT
 YEARS ENDED JUNE 30

Year	Airport Maintenance & ARFF	Building Maintenance & Custodial	Public Safety	Administration	Total
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
2008	10	6	-	4	20
2007	10	6	-	4	20

Source: Gallatin Airport Authority's operating budget records

GALLATIN AIRPORT AUTHORITY
INSURANCE COVERAGE
YEAR ENDED JUNE 30, 2016

Insurer	Coverage	Amount	Expires	Annual Premium
Cincinnati Insurance Company	Commercial Property		8/10/2017	\$ 45,479
	Buildings	\$ 67,548,728		
	Contents	\$ 1,137,747		
	Commercial Auto	\$ 1,000,000	8/10/2017	\$ 13,730
	Inland Marine	\$ 281,700	8/10/2017	\$ 1,740
	Crime / Employee Dishonesty	\$ 50,000	8/10/2017	\$ 724
	Umbrella	\$ 3,000,000	8/10/2017	\$ 3,591
	Directors & Officers Liability Employment Practices Liability	\$ 1,000,000	8/10/2017	\$ 6,574
Ace Property & Casualty	Aviation Liability	\$ 60,000,000	8/10/2017	\$ 22,510
Allied World	Law Enforcement Liability	\$ 1,000,000	8/10/2017	\$ 3,431

GALLATIN AIRPORT AUTHORITY
AIRPORT INFORMATION
YEAR ENDED JUNE 30, 2016

Location:	9 miles northwest of Bozeman, MT		
Area:	3,188 acres		
Airport code:	BZN		
Elevation:	4,475'		
Runways:	12/30	Paved	8,994' x 150'
	03/21	Paved	2,650' x 75'
	11/29	Turf	3,197' x 80'
Terminal	205,000 sq. ft.		
Terminal apron	671,150 sq. ft.		
Parking spaces	Pay parking:		
	Long-term		1,047
	Short-term		347
			1,394
	Rental car parking:		
	Ready		275
	Return		332
			607
	Employee parking		271
	Total		2,272
General aviation aprons:	Old terminal	78,750	sq. ft.
	GA ramp	583,395	sq. ft.
	Tie down apron	125,985	sq. ft.
	East ramp	645,200	sq. ft.
	Total	1,433,330	sq. ft.
Based aircraft:	Sailplane		10
	Single engine (piston)		229
	Twin engine (piston)		12
	Single engine (turboprop)		8
	Twin engine (turboprop)		6
	Single engine (jet)		4
	Multi engine (jet)		20
	Helicopter		22
	Total		311
Hangars:	160		
Fixed based operators:	Arline's Aircraft Yellowstone Jetcenter		
International:	U.S. Customs and Border Protection User Fee Facility		

GALLATIN AIRPORT AUTHORITY
DEMOGRAPHIC AND ECONOMIC STATISTICS
YEARS ENDED JUNE 30

GALLATIN COUNTY

Year	Population	Per Capita Personal Income	Personal Income	Unemployment Rate
2016	unavailable	unavailable	unavailable	unavailable
2015	100,739	unavailable	unavailable	2.9%
2014	97,308	42,350	4,120,993,800	2.9%
2013	94,694	41,137	3,895,427,078	3.4%
2012	92,604	40,653	3,764,630,412	4.4%
2011	91,333	38,058	3,475,951,314	5.1%
2010	89,599	35,477	3,178,703,723	5.8%
2009	90,343	34,710	3,135,805,530	6.0%
2008	89,812	36,383	3,267,629,996	3.6%
2007	87,300	36,473	3,184,092,900	2.3%

MONTANA

Year	Population	Per Capita Personal Income	Personal Income	Unemployment Rate
2016	unavailable	unavailable	unavailable	unavailable
2015	1,032,949	41,280	42,640,134,720	4.1%
2014	1,023,579	39,903	40,843,872,837	4.7%
2013	1,014,864	38,884	39,461,971,776	5.4%
2012	1,005,163	39,102	39,303,883,626	6.1%
2011	997,661	36,959	36,872,552,899	7.0%
2010	990,575	34,737	34,409,603,775	7.3%
2009	974,989	33,627	32,785,955,103	6.9%
2008	968,035	34,912	33,796,037,920	4.9%
2007	957,225	33,374	31,946,427,150	3.5%

Sources:

Census Bureau

Bureau of Economic Analysis

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

Current Year *		2007	
Private Employers By Class	Number of Employees	Private Employers By Class	Number of Employees
Bozeman Deaconess Hospital	1,000 +	Bozeman Deaconess Hospital	500 to 999
Oracle America	250 to 499	Home Care Services	500 to 999
Wal Mart	250 to 499	Kenyon Noble Lumber & Hardware	250 to 499
Albertson's	100 to 249	Right Now Technologies	250 to 499
Bridger Bowl	100 to 249	Wal Mart	250 to 499
Community Food Co-Op	100 to 249	Albertson's	100 to 249
Costco	100 to 249	Bozeman Daily Chronicle	100 to 249
Federal Premium Ammunition	100 to 249	Community Food Co-Op	100 to 249
First Student	100 to 249	Costco	100 to 249
Kenyon Noble	100 to 249	First Security Bank	100 to 249
Korman Marketing Group	100 to 249	JTL Group	100 to 249
Martel Construction	100 to 249	Laidlaw Transit	100 to 249
McDonalds	100 to 249	Martel Construction	100 to 249
Murdoch's Ranch & Home Supply	100 to 249	McDonalds	100 to 249
Ressler Motors	100 to 249	Murdoch's Ranch & Home Supply	100 to 249
Rosauers Super Markets	100 to 249	Ressler Motors	100 to 249
Simkin Hallin Lumber	100 to 249	Simkin Hallin Lumber	100 to 249
Town & Country Foods	100 to 249	Town & Country Foods	100 to 249
Town Pump Convenience Stores	100 to 249	Williams Plumbing & Heating	100 to 249
Zoot Enterprises	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 +
School District #7	1,000 +	School District #7	500 to 999
City of Bozeman	250 to 499	City of Bozeman	250 to 499
Gallatin County	250 to 499	Gallatin County	250 to 499

* 2015 information is presented for current year and is the most recent available

Region is defined as Gallatin County

Source: Montana Department of Labor & Industry

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COMPLIANCE SECTION



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of 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, 2016, 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 27, 2016.

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

October 27, 2016

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, 2016. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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.

October 27, 2016
Gallatin Airport Authority
Page two

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, 2016.

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

October 27, 2016

GALLATIN AIRPORT AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2016

Federal Source		
Pass-Through Source	CFDA	FEDERAL
<u>Program Name</u>	<u>Number</u>	<u>EXPENDITURES</u>
U.S. DEPARTMENT OF TRANSPORTATION		
<i>Federal Aviation Administration -</i>		
Project No. 3-30-0010-42	20.106	\$ 3,134
Project No. 3-30-0010-43	20.106	80,508
Project No. 3-30-0010-44	20.106	<u>3,274,820</u>
 Total U.S. Dept. of Transportation		 <u>3,358,462</u>
 Total expenditures of federal awards		 \$ <u><u>3,358,462</u></u>

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, 2016 has been subjected to the applicable compliance testing requirements prescribed by the Uniform Guidance.

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over the major program:

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

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

There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).

The program tested as a major program is as follows:

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

The \$750,000 threshold was used in distinguishing between Type A and Type B programs.

Gallatin Airport Authority was determined to be a low-risk auditee.

Section II – Financial Statement Findings

Significant Deficiencies

None reported

Section III – Major Federal Award Findings and Questioned Costs

None

GALLATIN AIRPORT AUTHORITY
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
YEAR ENDED JUNE 30, 2016

There were no findings, questioned costs, or significant deficiencies reported for the year ended June 30, 2015.

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

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Report on Compliance

We have audited Gallatin Airport Authority's (Authority) compliance with the types of compliance requirements described in 14 CFR Part 158 "Passenger Facility Charges" (PFC) that are applicable to the PFC program for the years ended June 30, 2016 and 2015.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards in 14 CFR Part 158, "Passenger Facility Charges." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the program facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for passenger facility charges. However, our audit does not provide a legal determination on the Authority's compliance with those requirements.

Opinion on Passenger Facility Charges

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program for the years ended June 30, 2016 and 2015.

Report on Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to passenger facility charges. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on the program facility charge program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the internal control over compliance in accordance with the standards in 14 CFR Part 158, "Passenger Facility Charges", but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 14 CFR Part 158 that are applicable to Passenger Facility Charges. Accordingly, this report is not suitable for any other purpose.

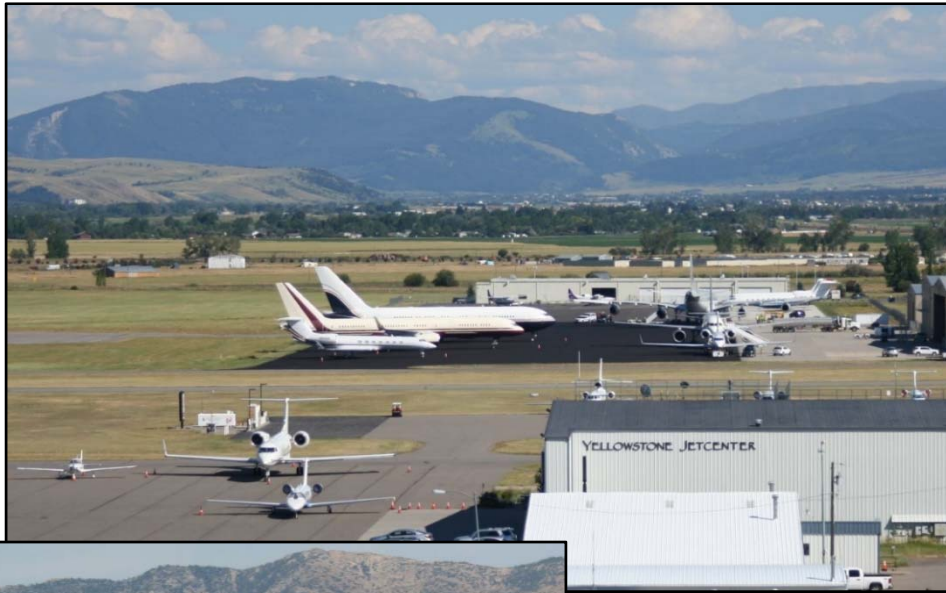
Holmes & Turner

October 27, 2016

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
YEARS ENDED JUNE 30, 2016 AND 2015

	<u>Cumulative to June 30, 2016</u>	<u>Cumulative to June 30, 2015</u>
SOURCES:		
PFC collections	\$ 21,441,789	\$ 19,420,354
Interest earned	<u>288,259</u>	<u>286,871</u>
 Total sources	 <u>21,730,048</u>	 <u>19,707,225</u>
USES:		
Debt Service 1993 Revenue Bonds		
Principal	2,379,667	2,379,667
Interest	1,040,381	1,040,381
Debt Service 2009 Revenue Bonds		
Principal	2,050,000	1,515,000
Interest	<u>3,830,918</u>	<u>3,622,233</u>
	9,300,966	8,557,281
Cost of improvements	<u>10,925,385</u>	<u>10,526,035</u>
 Total uses	 <u>20,226,351</u>	 <u>19,083,316</u>
 BALANCE	 <u>\$ 1,503,697</u>	 <u>\$ 623,909</u>
BALANCE HELD IN:		
Debt service account	\$ 190,331	\$ 190,506
PFC reserve account	<u>1,313,366</u>	<u>433,403</u>
	<u>\$ 1,503,697</u>	<u>\$ 623,909</u>

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