

# 2017

The number '2017' is rendered in a large, bold, blue font. The interior of the digits is filled with a scenic landscape of mountains and a bright sun, creating a gradient from blue to white.

Comprehensive  
**ANNUAL FINANCIAL REPORT**


GALLATIN AIRPORT AUTHORITY  
Belgrade, Montana

A night-time photograph of the Bozeman Yellowstone International Airport. The scene is dominated by a deep blue twilight sky. In the foreground, several tall, modern light poles with warm white lights illuminate a parking lot filled with cars. A prominent light blue pickup truck is parked in the middle ground. The airport terminal building, a long, low structure with large windows, is visible in the background, its interior lights glowing. Behind the terminal, a range of rugged mountains with snow-capped peaks stretches across the horizon. The overall mood is serene and modern.

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

*BZN is owned and operated by the Gallatin Airport Authority.*



A nighttime photograph of a large, modern building with a parking lot in the foreground. The building has a prominent overhang and is illuminated from within. Several cars are parked in the lot, and some have their headlights on. In the background, there are large, rugged mountains covered in snow, illuminated by a deep blue light. Tall light poles with bright lights are scattered throughout the scene, creating a starburst effect.

Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2017

Gallatin Airport Authority  
Belgrade, MT

Prepared by:  
Gallatin Airport Authority  
Finance and Administration

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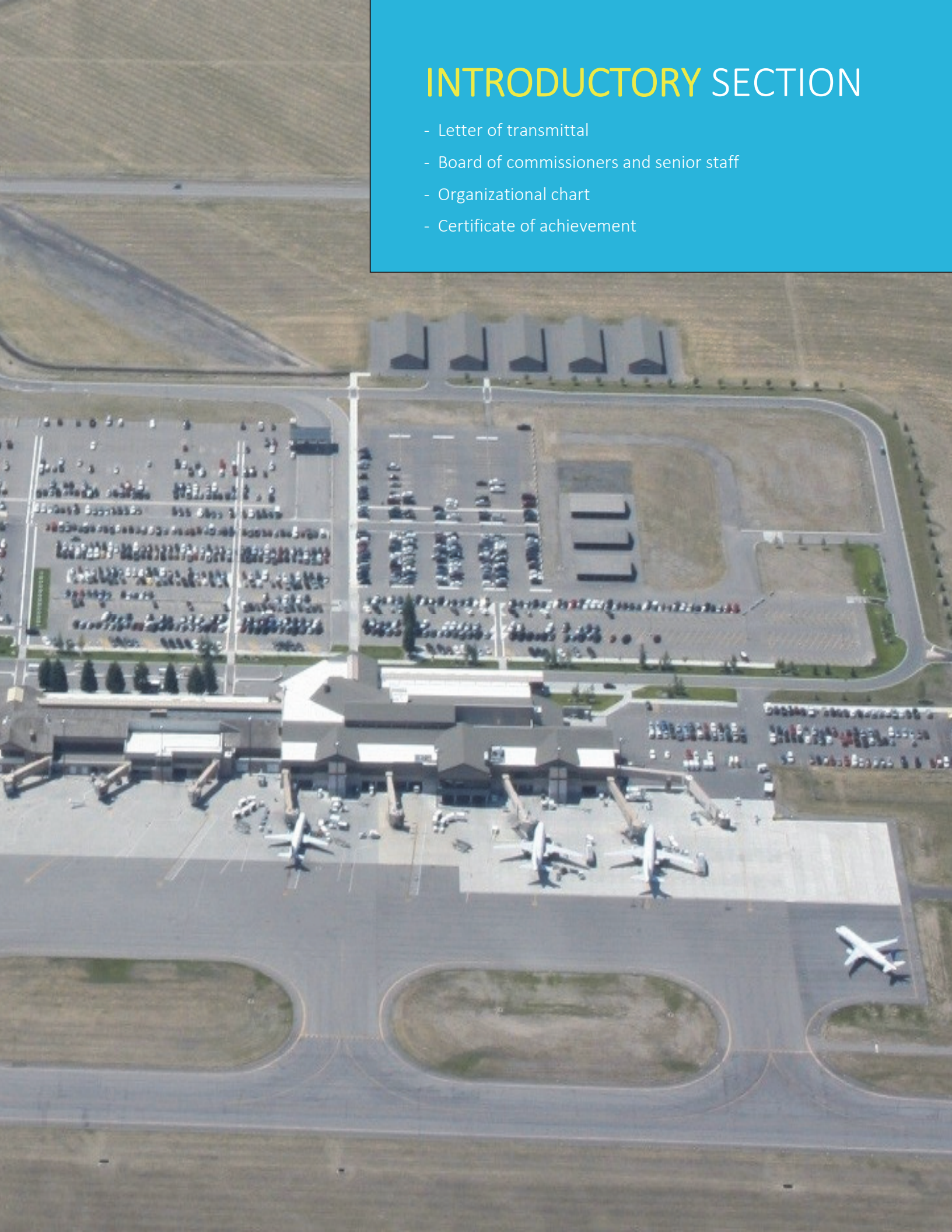
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# INTRODUCTORY SECTION

- Letter of transmittal
- Board of commissioners and senior staff
- Organizational chart
- Certificate of achievement







October 18, 2017

## TO THE BOARD OF COMMISSIONERS

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Gallatin Airport Authority (Authority), for the year ended June 30, 2017.

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*

Despite record operating profits over the past 24 months, domestic airline yields fell 1.2¢ this past year as the industry increased seat capacity 3.4% while enplanements increased just 2.4% over the same timeframe. After airline consolidation this past decade, legacy airlines finally were able to enforce capacity and fare discipline. Low Cost Carriers (LCC) are now aggressively adding capacity and moderating fares with Allegiant Air adding 19.2% more seats, Frontier Airlines 15.9%, Spirit Airlines 15.8%, JetBlue 7.2%, and Alaska Airlines 5.1%. With the additional capacity, industry load factors fell 0.7% from 82.6% in 2016 to 81.9% in 2017. Overcapacity is generally detrimental to profitability as airlines tend to reduce fares so that they can fill up extra seats, thus reducing yields.

While LCCs are gaining market share, the differences between product offerings is blurring. JetBlue, one of the original LCCs, now offers a business class premium experience with their “Mint” product including fully reclining seats and premium food on long-haul flights. The Alaska, Virgin America merger promises more inflight entertainment, Wi-Fi and the ability to order food and beverage from the seat-back over the combined network. Likewise, legacy carriers including United and Delta are tweaking fares to include a nonrefundable, bare-bones fare with none of the extras you have come to expect. American Airlines has doubled down on its policy of matching LCC discount fares on competing routes in their hubs aimed at value-based customers.

The pilot shortage that has affected small carriers and communities over the past few years is growing; Horizon Air, regional airline for Alaska Air Group, cut its flight schedule this past summer because of a shortage of pilots for its turboprop planes. The shortage became a crisis in June when Horizon was forced to cancel more than 318 flights. The airline pre-emptively pared their schedule for the remainder of 2017. The growing shortage should become more pronounced with some 18,000 pilots expected to retire at U.S. mainline carriers over the next three years. The pilot pipeline continues to struggle to produce qualified candidates because of the growing cost of becoming an airline pilot coupled with the 2013 FAA rule requiring 1,500 hours of flight time before becoming a first officer with a U.S. commercial airline.

### *State of the Region*

Southwest Montana continues to see strong economic growth. Bozeman and Gallatin County remain the fastest growing city and county in the state (populations over 10,000), while unemployment has remained low at 2.4% in July 2017. Montana State University has seen significant enrollment growth with 3,939 more students in 2017 compared to 2010. In addition, both summer and winter tourism have seen strong growth with Big Sky skier visits growing 59% over the past 7 years, and Yellowstone National Park Fiscal Year visitation surpassing all previous Fiscal Year visitation.

	2017	2016	2010	Change '16 to '17	Change '10 to '17
BZN total passengers	1,148,347	1,060,732	728,048	8.3%	57.7%
Big Sky skier visits	478,000	477,000	300,000	0.2%	59.3%
Yellowstone National Park visits	4,290,689	4,230,927	3,348,087	1.4%	28.2%
Montana State University enrollment	16,703	15,688	12,764	6.5%	30.9%
Bozeman population	45,250	43,405	37,284	4.3%	21.4%
Bozeman unemployment rate	2.4%	2.3%	5.4%	4.3%	-55.6%
Gallatin County population	104,502	100,739	89,599	3.7%	16.6%

## ECONOMIC CONDITIONS AND OUTLOOK (continued)



### Bozeman, MT

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

### Yellowstone National Park

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



### Montana State University

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

### Big Sky

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





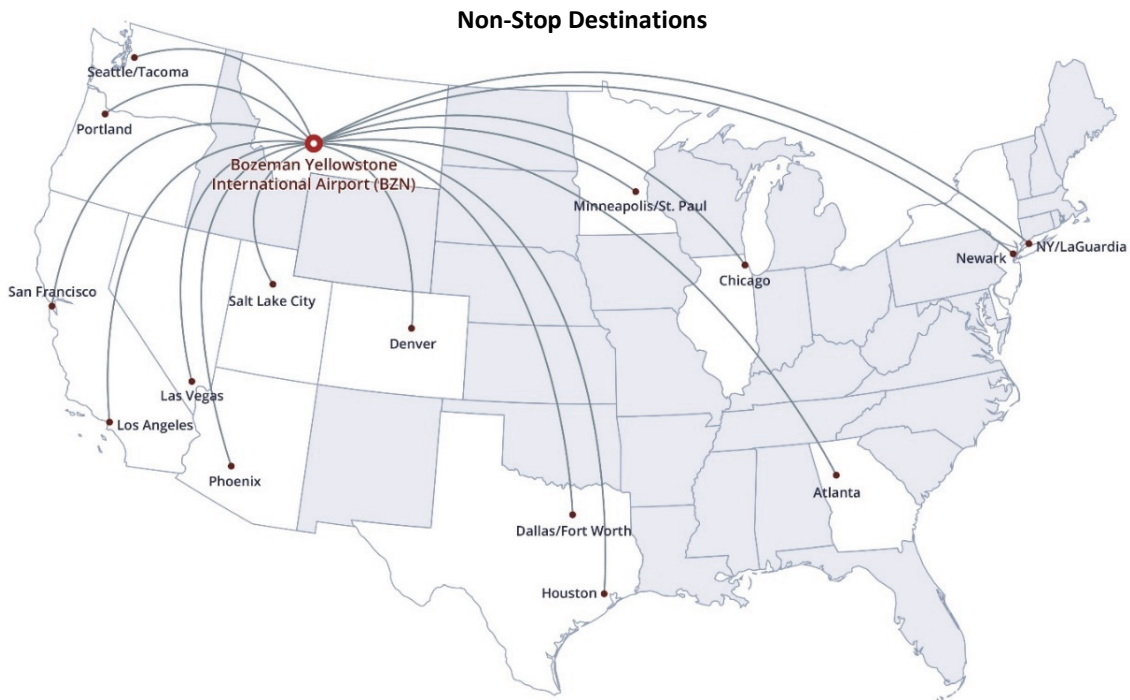
## AIRPORT HIGHLIGHTS – FISCAL YEAR 2017

For the year, BZN handled 1,148,347 total passengers maintaining its status as Montana’s busiest airport for the fourth consecutive year. For comparison, Billings is the second busiest airport in Montana at 838,053 passengers for FY 2017. BZN ended FY 2017 as the 112th 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 114th busiest in the nation and 8th busiest in the Northwest Region at the end of FY 2016.

Tourism and locally generated traffic continue to contribute nearly equally to the overall increase in passengers. Significant factors impacting passenger traffic during FY 2017 include the start of year-round daily service to two destinations, Chicago (United) and Dallas/Ft. Worth (American). In addition, several other markets saw significant increases in including Portland (Alaska), San Francisco (United), Salt Lake City (Delta), New York/Newark (United) and New York/LaGuardia (Delta). Finally, American added summer seasonal Chicago service in June 2017. Continuing into FY 2018, American is expanding service to Dallas/Ft. Worth and adding summer Saturday only service to Los Angeles summer 2018. In addition, United announced expanded winter ‘17/’18 service from all six hubs served from BZN. On the flip side, Frontier continues to modify their business model and has paired seasonal Denver service from May-January to May-October. We expect to see about a five to ten percent reduction in passengers in May 2018 while the main runway is rehabilitated. Daily air service will be maintained throughout the month but construction will limit airline flight operations between 11:00 p.m. and 12:30 p.m. from April 30 – May 18. Overall, however, the strong local economy and continued tourism demand are expected to continue the growth trend through the next year.

### *Air Service*

BZN currently has year round non-stop service to eight destinations including Seattle-Tacoma (Delta/Alaska), Las Vegas (Allegiant), Phoenix-Mesa (Allegiant), Salt Lake City (Delta), Denver (United – year round, Frontier – seasonal), Minneapolis-St Paul (Delta), Dallas-Fort Worth (American) and Chicago (United). BZN also has seasonal non-stop service to seven additional destinations including Portland (Alaska), San Francisco (United), Los Angeles (Delta/United/American beginning summer 2018), Houston (United), New York-LaGuardia (Delta), New York-Newark (United) and Atlanta (Delta).

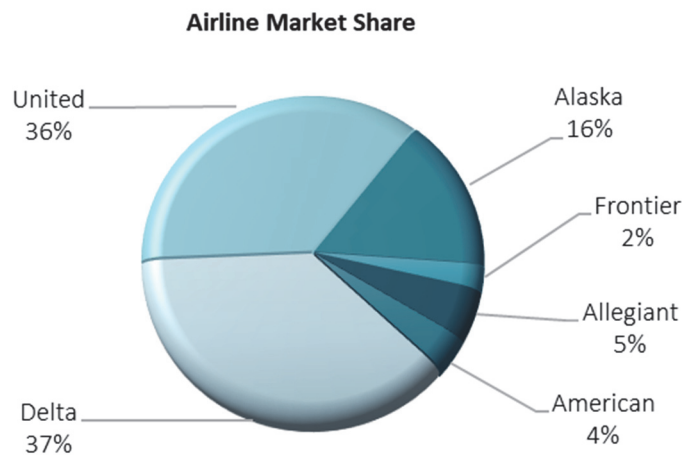


## AIRPORT HIGHLIGHTS – FISCAL YEAR 2017 (continued)

The following table shows major air traffic activities during the fiscal years ended June 30, 2017 and 2016.

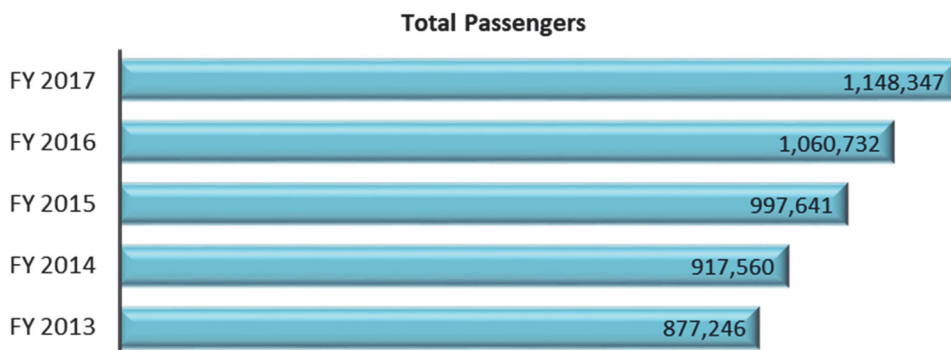
	2017	2016	Change
Total enplaned and deplaned passengers	1,148,347	1,060,732	8.3%
Enplaned passengers	573,767	530,903	8.1%
Deplaned passengers	574,580	529,829	8.4%
Aircraft operations	76,943	80,629	-4.6%
Available departing seats	675,270	625,036	8.0%
Load factor average	85.1%	84.7%	0.5%

The following chart shows airline market share at BZN for the fiscal years ended June 30, 2017.



### Passenger Traffic

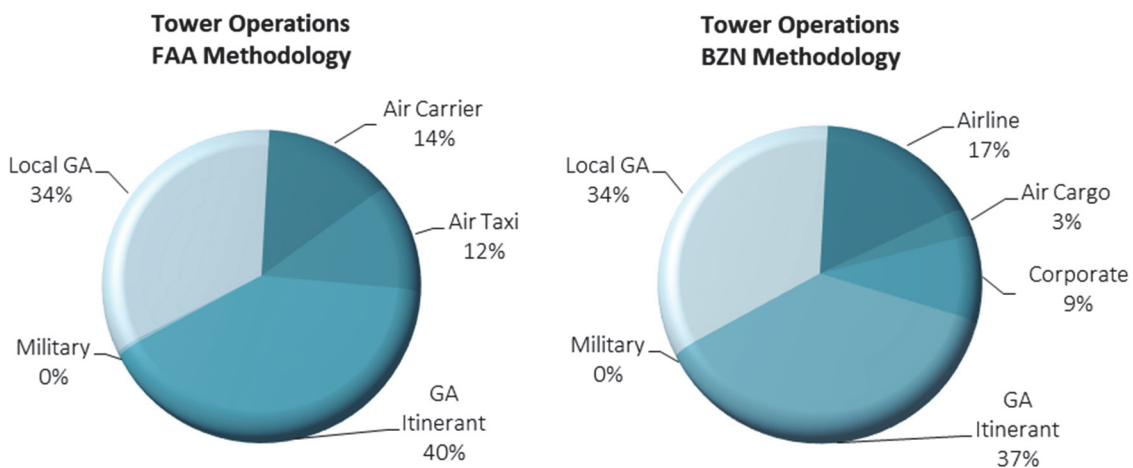
FY 2017 passenger traffic at BZN increased 8.3% to 1,148,347 passengers. Available seats increased 8.1% due to a combination of increased flight activity and increased average seats per aircraft. Load factor for FY2017 was 85.1%. Weekly average departures increased 3.3% from 121 in FY 2016 to 125 in FY 2017. Average seats per aircraft increased 5.6% from 99 in FY 2016 to 105 in FY 2017. American Airlines had the largest traffic increase primarily due to the limited service in FY 2016 with their June 2016 start (1,049.3%). In addition, United and Alaska had significant traffic increases, 17.2% and 8.6%, respectively. Frontier's move to seasonal service and primarily origin and destination traffic only to Denver continues to pressure enplanements with a 15.3% decrease. Allegiant traffic was down 2.4%. Finally, Delta traffic was down 4.4% primarily due to the reduction of Seattle service from year-round to seasonal.



## AIRPORT HIGHLIGHTS – FISCAL YEAR 2017 (continued)

### Tower Operations

Tower operations (landing or takeoff) decreased 4.6% during FY 2017 primarily due to taxiway construction that impacted flight school operations. Air Carrier operations increased 7.5% and Air Taxi operations increased 1.0%. General Aviation Itinerant operations were up 2.1%. Military operations decreased 12.6% but only 43 total operations due to the minimal military use of BZN. Overall Itinerant operations (Air Carrier, Air Taxi, General Aviation Itinerant and Military) were up 2.9%. BZN further clarifies Itinerant activity to Airline, Cargo, Corporate and General Aviation Itinerant. Local general aviation operations were down 16.6%, again attributed to taxiway construction impacting flight school activity. While the overall decrease was only 4.6%, BZN continued to see peak day operations of over 400 and peak hour operations that exceeded 60. These peak periods in addition to the mix of aircraft and varying approach speeds results in many periods where BZN is operating at capacity. This will be rectified in October 2017 when our new parallel paved runway opens to separate slower piston powered aircraft from the faster jet aircraft.



### Cargo

Cargo revenues consists of landing fees from FedEx, UPS and the airlines, and ground rent paid by cargo operators for their facilities. As shown below, total cargo, express and air mail increased 1.8% to 5,402,565 lbs. FedEx moved 2,216,592 lbs. of cargo by air and transferred 1,593,000 lbs. by truck at its airport facility.

	Pounds Moved		
	2017	2016	Change
FedEx	3,809,592	3,698,000	3.0%
UPS	1,172,146	1,194,412	-1.9%
Airlines	420,827	415,195	1.4%
Total	5,402,565	5,307,607	1.8%

### Customs and Border Protection

The United States Customs and Border Protection facility in BZN handled 134 international arrivals during FY 2017, compared to 119 in FY 2016. Unlike locations at Helena, Great Falls and Kalispell, this location is operated as a user fee facility with approximately 82% of the operating cost paid for by the international arriving aircraft and the remaining 18% split three ways between the Gallatin Airport Authority, the Yellowstone Club and Signature Flight Support.



## AIRPORT HIGHLIGHTS – FISCAL YEAR 2017 (continued)

### *General Aviation*

General Aviation activity was down 7.2% to 56,902, this was primarily due to taxiway construction in August and September that resulted in local operations declining 16.6%. General Aviation operations account for approximately 74% of all airport tower operations. Corporate landings (aircraft 12,500 lbs. and above) were up 11.6% to 3,431. Despite the taxiway construction, Gallatin College continues to grow at BZN with Summit Aviation now operating 20 aircraft in conjunction with the aviation instruction program and charter operation. While General Aviation contributes 74% of the airport operations, it accounted for only 5.9% of the Airport Operating Revenue during FY 2017.



### *General Aviation Hangar Development*

Construction of a privately funded \$14 million dollar hangar complex was completed on the east ramp. In addition, two 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” were completed during the fiscal year. In addition, one commercial hangar on taxi-lane “U” and two non-commercial hangars on taxi-lane “V” are under construction.

### *Central Valley Fire District*

The Gallatin Airport Authority approved a land lease and inter-local agreement that will result in Central Valley constructing a new Fire Station at the intersection of Airway Blvd and Wings Way. Construction is expected to start in FY 2019.

### *Fuel Flowage*

Total Fuel flowage for the year increased 6.0% to 9,298,816 gallons. Of this total, Jet A (airline) increased 4.3% to 6,643,473 gallons, Jet A (non-airline) fuel flowage increased 10.8% to 2,516,500 gallons, and AvGas increased 6.4% to 138,843 gallons.

### *Land Acquisition*

The Gallatin Airport Authority completed a land trade in FY 2017 which will provide additional approach protection for both runway 30 and runway 29. Overall, the Gallatin Airport Authority’s land ownership increased by approximately 127 acres through this transaction.

The Gallatin Airport Authority also completed acquisition of a 60 acre parcel northeast of the airport.

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

On-Airport Rental Car Concessions - A request for proposals was issued for on-airport rental car concessions and agreements were awarded to Overland West (Hertz, Dollar, Thrifty), Avis/Budget Group, Corpat (Alamo/National) and Enterprise for a period five years beginning October 2017.

AIRPORT HIGHLIGHTS – FISCAL YEAR 2017 (continued)

*Financial*

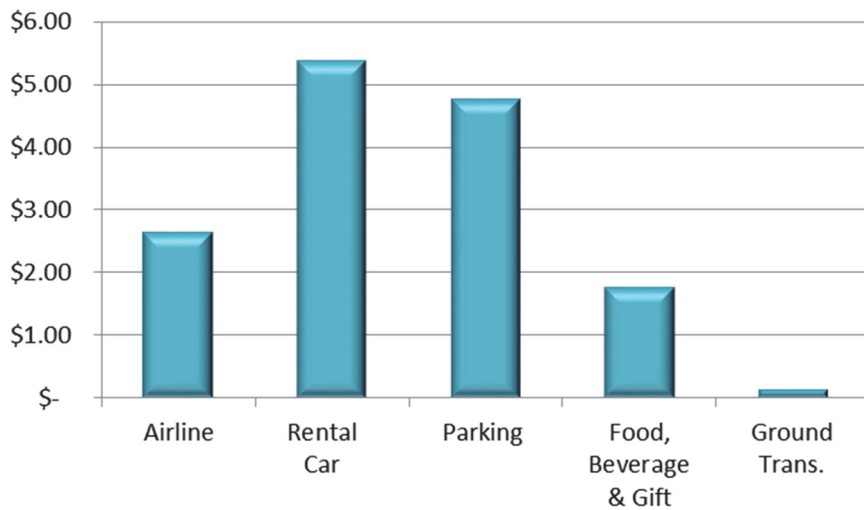
Financially, the Authority depends on our passengers with over 90% of the Authority’s operating revenues generated from the businesses that utilize the airline terminal building through rents and concession fees. However, we are dependent upon the airlines providing seats into our market and we compete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

The Authority has diligently controlled the costs passed on to the airlines through strict cost controls, a highly professional and cross utilized staff, and a fiscally conservative capital improvement program. As a result, airline cost per enplanement to operate at BZN in FY 2017 declined 4.3% to \$2.65.

	2017	2016
Airline cost	\$ 1,518,773	\$ 1,467,582
Enplanements scheduled	571,531	529,481
Cost per enplaned passenger	\$ 2.66	\$ 2.77

Airline and Concession revenues are variable dependent upon passenger enplanements. These revenues increased from \$14.29 per enplanement in FY 2016 to \$14.72 per enplanement in FY 2017. Airline revenues account for \$2.65 per enplanement or 18.0%; rental car and parking concessions account for \$10.16 per enplanement or 69.0%; food, beverage and gift concessions account for \$1.78 per enplanement or 12.1%; and ground transportation accounts for \$.13 per enplanement or .9%. In FY 2017, total enplanements of 573,767 generated airline and concession revenues of \$8,444,360; this compares to FY 2016 with 530,903 total enplanements generating \$7,688,083.

**FY 2017 Airline and Concession Revenue  
Per Enplaned Passenger**



## CAPITAL AND LONG-TERM PLANNING

The Gallatin Airport Authority has a comprehensive 11-year Capital Improvement Plan. This plan is designed to accommodate the future capital needs of BZN within the financial capability of the Authority. Projects in the first five years of the plan are more defined with the projects in the later six years more fluid due to future unknowns. The Gallatin Airport Authority invested \$11.8 million in Capital Improvements during FY 2017 and over the next five years, the Gallatin Airport Authority expects to invest over \$75 million in capital improvements. A description of FY 2017 projects and the major projects planned for FY 2018 through FY 2022 follows.

### *Projects completed during FY 2017*

- Main taxiway rehabilitation (Phase I)
- Pay parking lot Southeast expansion
- Taxiway “U” and “V” extensions

Below is a summary of estimated cost and funding for major projects planned for FY 2018 – 2022 followed by a description of each project.

Project	Est. Cost	Funding				
		Authority	AIP Entitlements	AIP Discretionary	CFC	PFC's and TSA Grant
Runway 11/29 (paved) construction	6,912,391	691,239	6,221,152	-	-	-
Main taxiway & runway 3/21 pavement rehab	7,528,133	752,814	2,010,257	4,765,062	-	-
Multi-use parking garage	33,070,179	4,960,527	-	-	28,109,652	-
Main runway 12/30 pavement rehab	6,128,506	612,851	2,753,959	2,761,696	-	-
Terminal concourse expansion	22,191,377	2,219,137	7,074,641	-	-	12,897,599

### *Runway 11-29 (paved) Construction - FY 2018*

Construction of runway 11/29 was started in September 2016 and completed in October 2017. The runway is 5,050' x 75' and 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 increase safety and efficiency of air traffic control at BZN through separation of smaller and slower aircraft on runway 11/29 from faster and larger aircraft on the main runway 12/30.





## CAPITAL AND LONG-TERM PLANNING (continued)

### *Main Taxiway and Runway 3/21 Pavement Rehabilitation - FY 2018*

The main taxiway system and crosswind runway 3/21 rehabilitation was completed in September 2017. The estimated cost of this project is \$7,528,133.

### *Multi-use Parking Garage - FY 2018 & 2019*

The Authority is in the final stages of design for a multi-use parking garage for rental cars and pay parking. Construction is anticipated to begin late fall 2017. It is anticipated that approximately 80-90% of the 1,100 stall four level fully covered parking garage will be for rental cars and the remaining 10-20% for pay parking. The rental car portion will be reimbursed through Customer Facility Charges (CFC) at \$3.00 per rental car day on rental car contracts. The pay parking portion will be funded by the Authority.

### *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 beginning April 30, 2018 with substantial completion by May 18, 2018. The estimated cost of this project is \$6,128,506. Funding for this project will include \$2.7 million in FAA Discretionary Funding for this is a high priority project.

### *Terminal Concourse Expansion - FY 2020–2022*

Continued growth in passenger enplanements, peak hour gate use, and peak hour baggage handling capacity, indicate there may be a need for a terminal concourse expansion and baggage system improvements within the next four years. We are in the initial phase of planning and expect to begin design in early 2018. If trends continue, we expect construction on this project could begin as early as summer 2019 with a completion date by summer 2021. In order to financially plan for this, we have included an initial budgetary amount of \$22,191,377 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 reimbursement through AIP Entitlements, Passenger Facility Charge (PFC) collection and possibly a TSA baggage system grant if eligible.

## OTHER INFORMATION

### *Independent Audit*

For the fiscal year ended June 30, 2017, the annual financial statements of the Authority have been audited by Holmes & Turner, PC, a firm of independent Certified Public Accountants. As part of the annual audit, the auditors perform procedures in accordance with the Uniform Guidance and the provisions of grant agreements. The auditors also perform procedures to help ensure the Authority's compliance with FAA regulations related to the Passenger Facility Charge program.

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

## OTHER INFORMATION (continued)

### *Internal Controls*

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

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

### AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2016.

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

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

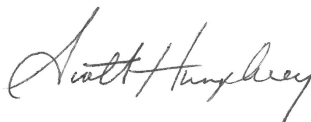
### ACKNOWLEDGEMENTS

Success in any organization is dependent upon people. We are fortunate to have a dedicated and knowledgeable Authority Board that understands the business of airports. We also have an exceptional staff of 35 experienced and customer friendly professionals that keep the airport in top condition, financially sound and prepared for any challenge. We are proud to serve the flying public and hope that this report will provide valuable information on the status of your airport. We welcome and value your input on how we can better serve you at Bozeman Yellowstone International Airport.

Respectfully submitted,



Brian Sprenger, A.A.E.  
Airport Director



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



Troy Watling, CPA, CM  
Assistant Director, Finance

BOARD OF COMMISSIONERS



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Chair



Carl Lehrkind, IV  
Vice Chair



Kendall Switzer  
Secretary



Kevin Kelleher  
Member



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Member

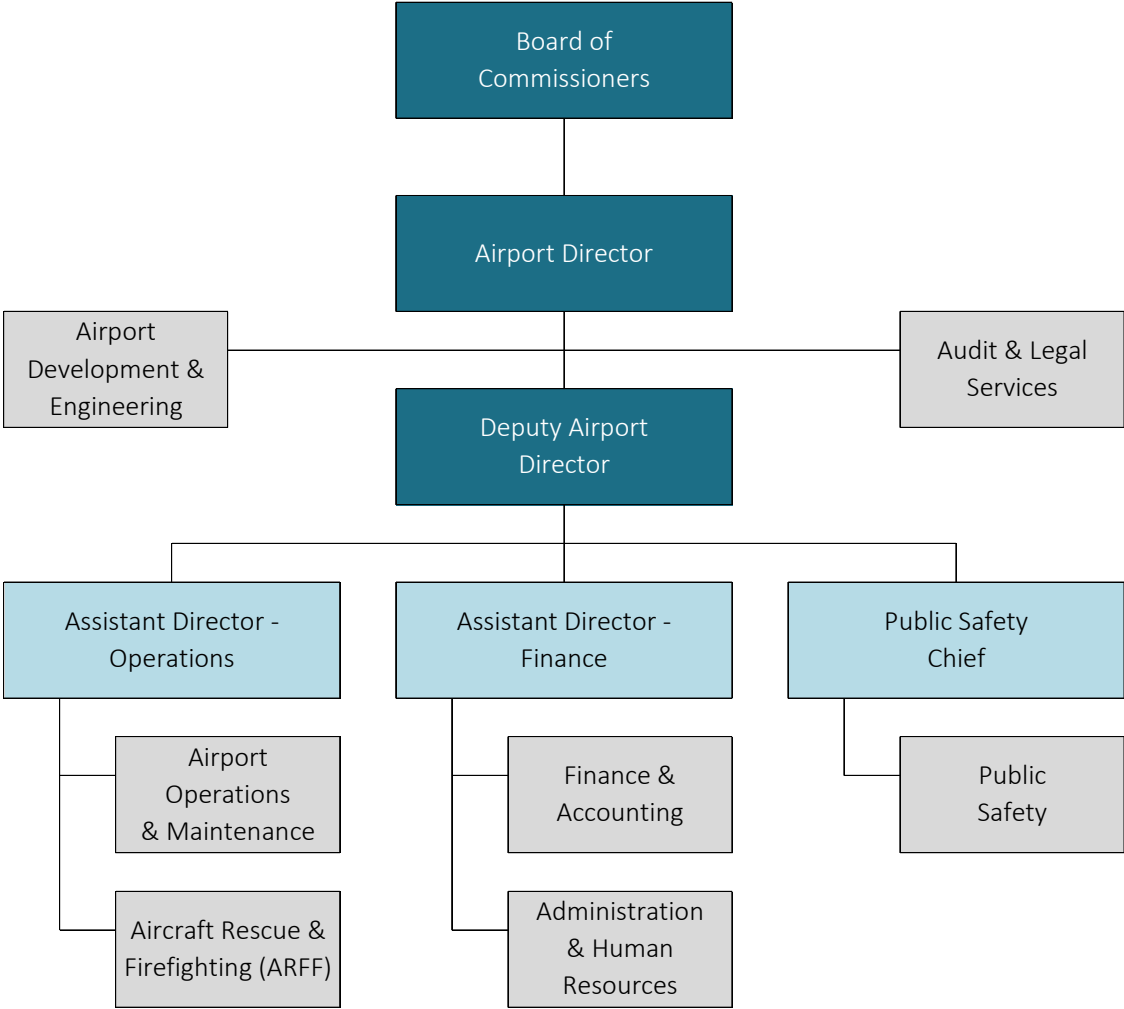
SENIOR STAFF

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



# Organizational Chart

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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, 2016**

Executive Director/CEO





# FINANCIAL SECTION

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



## 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, 2017, 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, 2017 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 27-35 and 57-59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Gallatin Airport Authority's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of passenger facility charges collected and expended is required by the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration and is not a required part of the financial statements.

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

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.



October 18, 2017  
Gallatin Airport Authority  
Page three

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017 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 18, 2017

The following discussion and analysis provides an overview of the Gallatin Airport Authority's (Authority) financial statements for the fiscal year ended June 30, 2017 with selected comparative information for the fiscal year ended June 30, 2016. This discussion and analysis has been prepared by management and should be read in conjunction with the basic financial statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Certain fiscal year 2016 balances have been reclassified to conform to the fiscal year 2017 presentation.

## FINANCIAL HIGHLIGHTS

### Statement of Net Position

The following table represents a condensed summary of the Authority's statement of net position at June 30, 2017 and 2016:

	Dollars in 000's	
	2017	2016
Current assets	\$ 26,305	\$ 24,648
Restricted assets - noncurrent	5,846	4,672
Capital assets, net - noncurrent	95,835	86,908
<b>Total assets</b>	<b>127,986</b>	<b>116,228</b>
Deferred outflows of resources	464	160
Current liabilities	3,139	1,643
Noncurrent liabilities	15,257	15,352
<b>Total liabilities</b>	<b>18,396</b>	<b>16,995</b>
Deferred inflows of resources	8	182
Net investment in capital assets	82,435	72,958
Restricted	5,847	4,672
Unrestricted	21,764	21,581
<b>Total net position</b>	<b>\$ 110,046</b>	<b>\$ 99,211</b>

Total assets were up by 10.1% from FY 2016 to FY 2017. Current assets rose by 6.7% mainly due to the increase in cash and federal grant receivable. Noncurrent assets increased by 11.0% with the FY 2017 capital additions offset by depreciation.

Current liabilities increased by 91.1% from FY 2016 to FY 2017. The increase was primarily the result of higher construction payables at the end of FY 2017.

Noncurrent liabilities decreased by 0.6% from FY 2016 to FY 2017. The decrease resulted from reduction in bond principal with smaller increase in net pension liability.

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

Total net position improved by 11.1% from FY 2016 to FY 2017. A summary of the changes in net position follows.



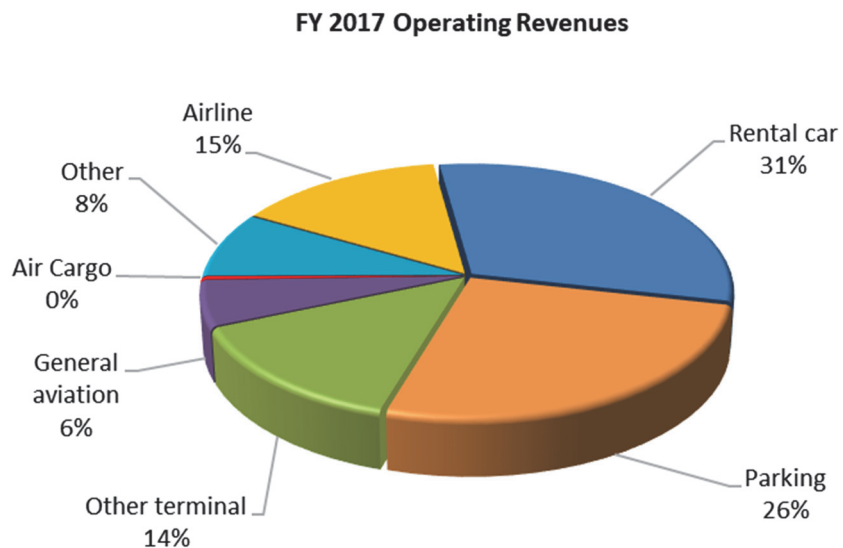
## Statement of Revenues, Expenses, and Change in Net Position

The following table represents a condensed summary of the statement of revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016:

	Dollars in 000's	
	2017	2016
Operating revenues	\$ 10,498	\$ 9,630
Operating expenses, excluding depreciation	(5,186)	(4,639)
Depreciation	(4,182)	(3,976)
Operating income	1,130	1,015
Net nonoperating revenues (expenses)	2,839	2,409
Capital contributions	6,866	3,358
Change in net position	10,835	6,782
Net position - beginning (2015 restated)	99,211	92,429
Net position - ending	\$ 110,046	\$ 99,211

### Operating Revenues

The following charts illustrate the principal revenue sources and their percentage of total operating revenues for the year ended June 30, 2017.



### Operating Revenues (continued)

The following table shows the operating revenues for the years ended June 30, 2017 and 2016, and the percentage change.

	Dollars in 000's		
	2017	2016	Change
Airline	\$ 1,519	\$ 1,468	3.5%
Rental car	3,218	2,743	17.3%
Parking	2,753	2,590	6.3%
Other terminal	1,466	1,384	5.9%
General aviation	617	570	8.2%
Air Cargo	43	41	4.9%
Other	882	834	5.8%
Total operating revenues	\$ 10,498	\$ 9,630	9.0%

Airline revenues rose by 3.5% and consist primarily of landing fees and airline terminal rents. Landing fee revenues increased by 0.7% to \$623,590. Landing fee rates decreased by 3.8% but air carrier landings increased by 7.5. Airline terminal rent increased by 5.4% to \$818,394.

Rental car revenues increased by 17.3% and includes on and off airport concessions fees and rents. The major contributor was on-airport rental car concessions which increased by 16.9% to \$3,028,365. Transaction days (the number of days a vehicle is rented) increased by 9.5% to 512,468 days in FY 2017. The average cost-per-day of an on-airport rental car increased by 9.1% to \$58.59. 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 6.3% and consists primarily of parking concessions revenues which increased by 6.2% to \$2,738,044. The parking revenues are net of parking management fees which increased by 8.3% to \$379,712 in FY 2017. The Authority has contracted with Republic Parking to operate the pay parking lot under a five year agreement ending September 2021.

Other terminal concessions and rents revenues rose by 5.9% and consists primarily of food, beverage and gift shop concessions fees; advertising; and space rents. The majority of the increase is due to food, beverage, and gift shop concessions, which increased by 7.4% to \$1,020,677 due to passenger traffic and the increase traffic at the second food and beverage facility in the concourse. The Authority has contracted with Sharbert Enterprises to operate terminal food, beverage, and gift concessions under a seven year agreement ending May 2022.

*Operating Revenues (continued)*

General aviation revenues increased by 8.2%. General aviation landing fees increased by 15.1% to \$152,283. Fuel flowage fees increased by 9.8% to \$154,902. Tie down fees increased by 1.8% to \$38,939. The growth in these areas can be attributed primarily to increases in general aviation operations.

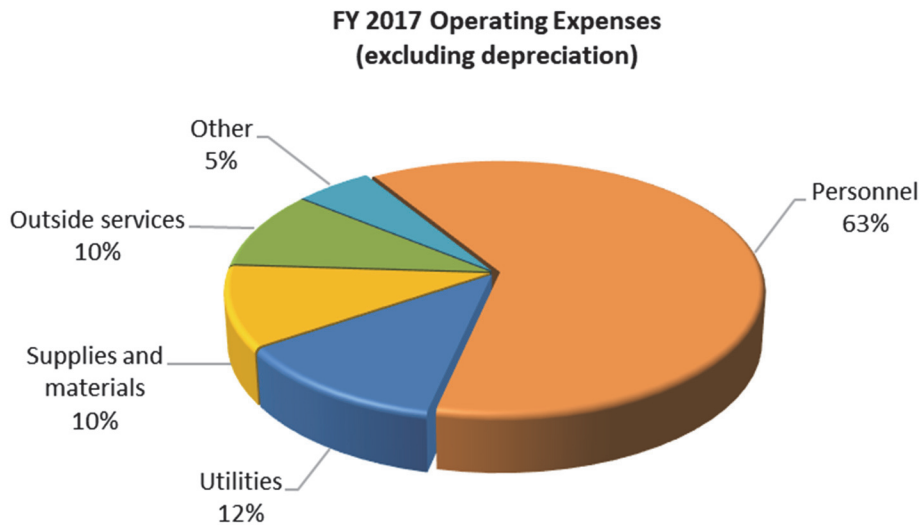
Air cargo revenues were up slightly with an increase of 4.9%.

Other operating revenues increased by 5.8% 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 9.1% to \$401,103. The majority of these revenues is from the operating portion of the customer facility charges which totaled \$384,351 FY 2017. The increase is directly related to the increase in rental car activity.
- Customs facility revenues increased by 8.5% to \$136,770 and is due to an increase in international landings requiring customs services.

*Operating Expenses*

The following charts illustrate the principal operating expenses (excluding depreciation) and their percentage of total operating expenses for the year ended June 30, 2017.





### 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 2017 operating expenses (excluding depreciation) increased 11.8% to \$5,186,524.

The following table shows the operating expenses for the years ended June 30, 2017 and 2016, and the percentage change.

	Dollars in 000's		
	2017	2016	Change
Personnel	\$ 3,237	\$ 2,941	10.1%
Utilities	629	654	-3.8%
Supplies and materials	536	347	54.5%
Outside services	509	437	16.5%
Insurance	98	92	6.5%
Other	178	168	6.0%
	5,187	4,639	11.8%
Depreciation	4,182	3,976	5.2%
Total operating expenses	\$ 9,369	\$ 8,615	8.8%

Personnel expenses increased by 10.1%. The increase is due to the addition of three full-time positions, annual wage adjustments, and employee benefit costs.

Utilities expense decreased by 3.8%. The decrease is attributed to weather changes and energy conservation efforts.

Supplies and materials expenses increased by 54.5%. The increase is due a rise in several areas including non-capital improvement projects, energy conservation upgrades, and products for de-icing and weed control.

Outside services expenses increased by 16.5% due primarily to several large repairs and noncapital projects during the year requiring outside expertise and snow removal equipment rental.

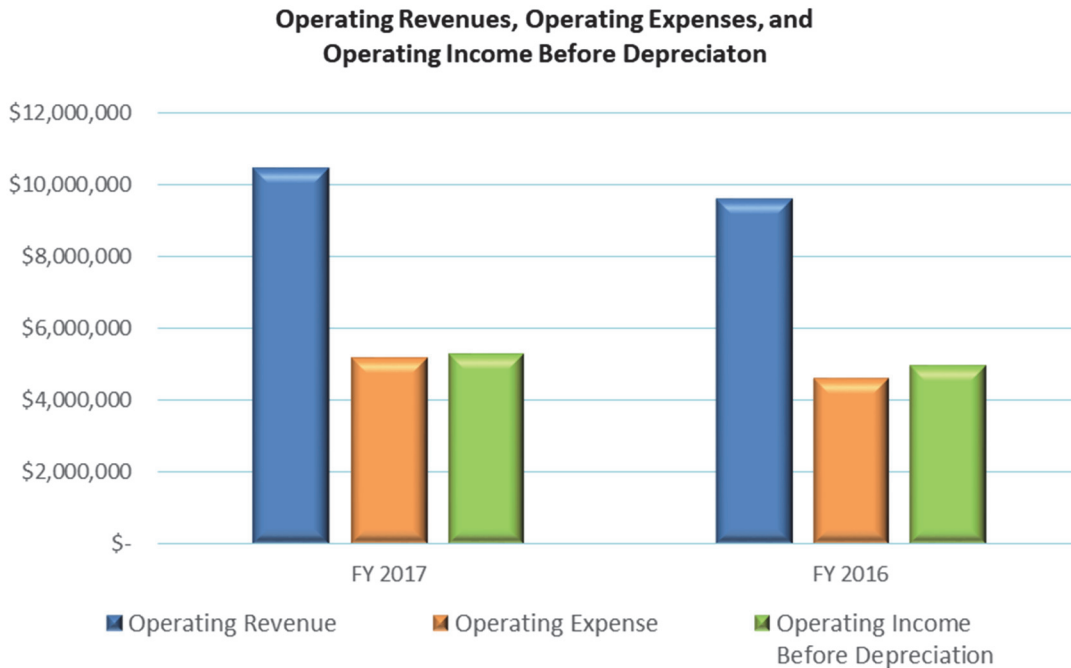
Insurance expense increased slightly with minor changes in policies and rates.

Other expense, consisting primarily of overhead costs, increased by 6.0%. The increase is due additional IT professional services and training programs.

Depreciation expense increased by 5.2% and is attributable to new depreciable assets placed in service during FY 2017.

*Operating Income (before depreciation)*

FY 2017 operating income before depreciation was \$5,311,414, up 6.4% compared to FY 2016. The increase in operating expenses of \$547,756 was well below the growth in operating revenue of \$867,971, as reflected in the chart below.



*Nonoperating Revenues and Capital Contributions*

Nonoperating revenues increased by 10.6%, and consist of passenger facility charges, customer facility charges, interest income and non-capital grants.

Passenger facility charges (PFC) revenues increased by 7.0%. The increase is directly attributable to passenger traffic growth.

Customer facility charges, capital (CFC) revenues increased by 24.7%. The increase is primarily due to rental car activity and a rate increase from \$2 to \$3.50 per transaction day instated June 1, 2017.

Interest income decreased by 33.1% primarily due to the consolidated rental car facility investment principal reduction.

Non-capital grants decreased by 3.9% and consists of funds from the State of Montana related to the Public Employees Retirement System and pavement preservation. See note 8 in the notes to the financial statements for more information regarding the Public Employees Retirement System.

Capital contributions increased by 104.4% to \$6,865,939 in FY 2017, and consists of Airport Improvement Program (AIP) entitlements and discretionary funds.

*Nonoperating Expenses*

Nonoperating expenses decreased by 2.6%, and consist mainly of bond interest payments.

## Statement of Cash Flows

The following table represents a condensed summary of the statement of cash flows for the fiscal years ended June 30, 2017 and 2016:

	Dollars in 000's	
	2017	2016
Cash provided by operating activities	\$ 10,849	\$ 8,794
Cash used by operating activities	(5,134)	(4,712)
Cash from operating activities	5,715	4,082
Cash from noncapital financing activities	7	(78)
Cash from capital and related financing activities	(4,219)	417
Cash from investing activities	62	93
Net increase in cash and cash equivalents	1,565	4,514
Cash and cash equivalents, beginning of year	27,626	23,112
Cash and cash equivalents, end of year	\$ 29,191	\$ 27,626

Cash and cash equivalents increased 5.7% primarily due to the net cash provided by operations. Net cash used by noncapital financing activities in FY 2016 related to the Airport's contribution to the interstate interchange project which did not occur in FY 2017. 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.

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

## CAPITAL PROJECTS

The Authority expended \$11,756,284 on capital projects in FY 2017 compared to \$4,702,061 in FY 2016. Major capital projects activity in FY 2017 included parallel runway 11-29 construction, taxiway pavement rehabilitation, pay parking lot expansion, parking garage design, and small terminal projects.

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

## DEBT ADMINISTRATION

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

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

## REQUEST FOR INFORMATION

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



# Statement of Net Position

June 30, 2017

<b>Current Assets</b>	
Cash and cash equivalents	\$ 23,786,440
Accounts receivable	2,510,098
Prepaid expenses	8,133
	<hr/>
	26,304,671
<b>Noncurrent Assets</b>	
Cash and cash equivalents - restricted	5,405,006
Accounts receivable - restricted	441,999
Nondepreciable capital assets	24,621,553
Depreciable capital assets, net	71,213,268
	<hr/>
	101,681,826
<b>Total Assets</b>	<b>127,986,497</b>
<b>Deferred Outflow of Resources</b>	
Montana Public Employees Retirement System	464,566
<b>Current Liabilities</b>	
Accounts payable	2,052,384
Deposits	100,667
Accrued payroll liabilities	332,363
Prepayments - rents	88,693
Current portion of 2009 revenue bonds payable	565,000
	<hr/>
	3,139,107
<b>Noncurrent Liabilities</b>	
Net pension liability	2,422,514
2009 revenue bonds payable, less current portion	12,835,000
	<hr/>
	15,257,514
<b>Total Liabilities</b>	<b>18,396,621</b>
<b>Deferred Inflow of Resources</b>	
Montana Public Employees Retirement System	8,019
<b>Net Position</b>	
Net investment in capital assets	82,434,821
Restricted - capital projects and debt service	5,703,974
Restricted - customs	143,031
Unrestricted	21,764,597
	<hr/>
<b>Total Net Position</b>	<b>\$ 110,046,423</b>

See accompanying notes to financial statements

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

Year Ended June 30, 2017

<b>Operating Revenues</b>	
Airline	\$ 1,518,773
Rental car concessions	3,217,657
Parking	2,752,978
Other terminal concessions and rents	1,465,824
General aviation	616,881
Air cargo	42,670
Other	883,155
	10,497,938
<b>Operating Expenses</b>	
Personnel	3,237,477
Utilities	629,222
Supplies and materials	535,315
Outside services	508,542
Insurance	98,209
Other	177,759
	5,186,524
Operating income before depreciation	5,311,414
Depreciation expense	4,181,565
	1,129,849
<b>Nonoperating Revenues (Expenses)</b>	
Passenger facility charges	2,221,502
Customer facility charges	1,095,592
Interest income	62,444
Other nonoperating revenue	51,924
Other nonoperating expenses	(350)
Interest expense	(591,986)
	2,839,126
<b>Capital Contributions</b>	
Federal grants	6,865,939
	10,834,914
<b>Change in Net Position</b>	<b>10,834,914</b>
Net position, beginning of year	99,211,509
	110,046,423
<b>Net Position, End of Year</b>	<b>\$ 110,046,423</b>

See accompanying notes to financial statements

# Statement of Cash Flows

Year Ended June 30, 2017

<b>Cash Flows From Operating Activities</b>	
Operating cash receipts from customers	\$ 10,849,052
Cash payments to suppliers for goods and services	(1,909,839)
Cash payments to employees for services	(3,224,637)
	5,714,576
<b>Cash Flows From Noncapital Financing Activities</b>	
Nonoperating grant receipts	7,000
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchase of capital assets	(11,756,284)
Federal grant receipts	5,401,096
Passenger facility charge receipts	2,183,044
Customer facility charge receipts	1,095,592
Principal payment on capital debt	(550,000)
Bond interest payments	(591,986)
	(4,218,538)
<b>Cash Flows from Investing Activities</b>	
Interest received	62,444
<b>Net Increases In Cash and Cash Equivalents</b>	<b>1,565,482</b>
Cash and cash equivalents, beginning of year	27,625,964
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 29,191,446</b>
<b>Reconciliation of operating income to cash flows from operating activities</b>	
Operating income	\$ 1,129,849
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	4,181,565
Changes in current assets and liabilities:	
Receivables, customers	373,542
Prepaid expenses	27,758
Accounts payable	11,450
Deposits	(300)
Prepayments - rents	(22,128)
Accrued payroll liabilities	12,840
<b>Cash flows from operating activities</b>	<b>\$ 5,714,576</b>

See accompanying notes to financial statements

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

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

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

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

**Measurement Focus and Basis of Accounting**

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

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

**Cash and Cash Equivalents**

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



## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments

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

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

### Inventories

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

### Accounts Receivable

Accounts receivable represents unpaid billings to outside parties. Due to the nature of the receivables consisting of primarily collected user fees and leases, the Authority considers the majority of these receivables as collectible. A provision for uncollectible receivables in the amount of \$6,200 was established for 2017.

### Capital Assets

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

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

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

### Compensated Absences

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Net Pension Liability and Deferred Outflows/Inflows of Resources

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

### Net Position

Net position is divided into three components:

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

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

### Operating Revenues and Expenses

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

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

### Budget

The Authority annually adopts a non-legally binding budget.

### Use of Estimates

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### New Pronouncements

For the year ended June 30, 2017 the Authority adopted GASB No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*. Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

## NOTE 2. CASH AND INVESTMENTS

The composition of cash and investments on June 30, 2017 was as follows:

	Cost	Fair Value
<b>Unrestricted</b>		
Operating account	\$ 13,545,378	\$ 13,545,378
Capital account	10,241,062	10,241,062
	23,786,440	23,786,440
<b>Restricted</b>		
Customs	143,031	143,031
Debt service account	189,898	189,898
PFC reserve account	2,357,925	2,357,925
Renewal and replacement reserve account (STIP)	250,000	250,000
Operating reserve (STIP)	1,320,032	1,320,032
Debt service reserve account (STIP)	1,144,120	1,144,120
	5,405,006	5,405,006
Total cash and cash equivalents	\$ 29,191,446	\$ 29,191,446

### Custodial Credit Risk – Deposits

At June 30, 2017, the carrying amount of the Authority's deposits in local banks was \$26,477,294. 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, 2017 was \$2,714,152. This investment in STIP is considered a cash equivalent.

## NOTE 2. CASH AND INVESTMENTS (CONTINUED)

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

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

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

### Risks Related to STIP

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – Deposit and Investment Risk Disclosures. The unaudited financial statements as of June 30, 2017 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 2017 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2017 financial statements is available online at the Montana Board of Investments' website.

## NOTE 3. ACCOUNTS RECEIVABLE

The composition of accounts receivable on June 30, 2017 was as follows:

<b>Unrestricted</b>	
Trade accounts receivable, net	\$ 874,861
Grants receivable	1,635,237
	<hr/>
	2,510,098
<b>Restricted</b>	
Passenger facility charges receivable	415,863
Customs receivable	26,136
	<hr/>
	441,999
Total accounts receivable	\$ 2,952,097



#### NOTE 4. CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2017:

	June 30, 2016	Additions	Reductions	June 30, 2017
<b>Nondepreciable capital assets</b>				
Land	\$ 11,575,099	\$ 677,741	\$ -	\$ 12,252,840
Construction in progress *	5,395,235	6,973,478	-	12,368,713
	16,970,334	7,651,219	-	24,621,553
<b>Depreciable capital assets</b>				
Runways & improvements	41,914,039	4,222,263	-	46,136,302
Buildings & equipment	75,863,460	1,235,033	(46,406)	77,052,087
Intangibles	460,840	-	-	460,840
	118,238,339	5,457,296	(46,406)	123,649,229
<b>Accumulated depreciation</b>				
Runways & improvements	26,919,409	1,841,895	-	28,761,304
Buildings & equipment	21,227,670	2,316,627	(46,406)	23,497,891
Intangibles	153,724	23,042	-	176,766
	48,300,803	4,181,564	(46,406)	52,435,961
Depreciable capital assets, net	69,937,536	1,275,732	-	71,213,268
Total capital assets, net	\$ 86,907,870	\$ 8,926,951	\$ -	\$ 95,834,821

\* Construction in progress at June 30, 2017 consists mainly of the costs associated with runway 11/29 construction, taxiway rehabilitation, parking garage design, parking lot expansion, and small terminal projects.

#### NOTE 5. PREPAYMENTS - RENTS

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

#### NOTE 6. LONG TERM LIABILITIES

The following is a summary of long-term liabilities activity for the year ended June 30, 2017:

	June 30, 2016	Additions	Reductions	June 30, 2017	Current Portion
Revenue bonds	\$ 13,950,000	\$ -	\$ (550,000)	\$ 13,400,000	\$ 565,000
Net pension liability	1,951,981	470,533	-	2,422,514	-
Total long term liabilities	\$ 15,901,981	\$ 470,533	\$ (550,000)	\$ 15,822,514	\$ 565,000

## NOTE 7. REVENUE BONDS

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

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

Fiscal Year	Principal Amount	Interest Rate	Interest Amount	Principal and Interest
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	650,000	3.850%	489,145	1,139,145
2023-2027	3,680,000	3.950-4.000%	2,031,216	5,711,216
2028-2032	4,555,000	4.000-4.375%	1,153,237	5,708,237
2033-2034	2,130,000	4.375-4.700%	151,340	2,281,340
	<b>\$ 13,400,000</b>		<b>\$ 6,001,971</b>	<b>\$ 19,401,971</b>

## NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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

### Net Pension Liability

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). As GASB Statement 68 allows, a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's TPL. The basis for the TPL as of June 30, 2016, was determined by taking the results of the June 20, 2015, actuarial valuation and applying standard roll forward procedures. The roll forward procedures uses a calculation that adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

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

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

The proportionate shares of the employer's and the state of Montana's NPL for June 30, 2016, and 2015, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for a particular employer to the total state contributions paid. The employer recorded a liability of \$2,422,514 and the employer's proportionate share was 0.1422 percent.

As of Measurement Date	NPL as of 6/30/2016	NPL as of 6/30/2015	Percent of Collective NPL as of 6/30/2016	Percent of Collective NPL as of 6/30/2015	Changes in Percent of Collective NPL
Employer's proportionate share	\$ 2,422,514	\$ 1,951,981	0.1422%	0.1396%	0.0026%
State of Montana proportionate share associated with employer	29,600	23,977	0.0017%	0.0017%	0.0000%
Total	\$ 2,452,114	\$ 1,975,958	0.1440%	0.1414%	0.0026%

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

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Pension Expense

As of Measurement Date	Pension Expense as of 6/30/2016
Employer's proportionate share	\$ 180,903
Grant revenue - State of Montana proportionate share for employer	2,481
Grant revenue - State of Montana Coal Tax for employer	42,443
Total	\$ 225,827

At June 30, 2017, the employer recognized \$180,903 for its proportionate share of the Plan's pension expense and recognized grant revenue of \$2,481 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of \$42,443 from the Coal Severance Tax Fund.

Recognition of Deferred Inflows and Outflows

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. actual experience	\$ 13,071	\$ 8,019
Projected investment earnings vs. actual investment earnings	227,910	-
Changes in assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	35,311	-
Employer contributions subsequent to the measurement date	188,274	-
Total	\$ 464,566	\$ 8,019

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

For the Measurement Year Ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense	
2017	\$	11,034
2018	\$	11,034
2019	\$	129,513
2020	\$	81,382
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.



## NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

### *Vesting*

5 years of membership service

### *Member's highest average compensation (HAC)*

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months;

### *Compensation Cap*

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

### *Monthly benefit formula*

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

### *Guaranteed Annual Benefit Adjustment (GABA)*

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

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

### Overview of Contributions

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

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
  - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
  - b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  - c. The Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan, 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 contributed 0.1% of members' compensation on behalf of local government entities.
    - ii. The State contributed 0.37% of members' compensation on behalf of school district entities.
  - b. Not Special Funding
    - i. The State contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

Stand-Alone Statements

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

## NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

### Actuarial Assumptions

The TPL used to calculate the NPL was determined by taking the results of the June 30, 2015, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016, 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 2.0% PERS is funded below 90%; and
  - c. 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement were assumed.

### 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 would be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. The State contributes 0.1% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed coal severance tax and interest money from the general fund. The interest was contributed monthly and the severance tax was contributed quarterly. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

## NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

### Target Allocations

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The experience study, performed for the period of fiscal years 2003 through 2009, was outlined in a report dated June 2010 and is located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 20, 2016, are summarized below.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Cash equivalents	2.60%	4.00%	0.10%
Domestic equity	36.0%	4.55%	1.64%
Foreign equity	18.0%	6.35%	1.14%
Fixed income	23.4%	1.00%	0.23%
Private equity	12.0%	7.75%	0.93%
Real estate	8.0%	4.00%	0.32%
Total	100.0%		4.37%
Inflation			3.00%
Portfolio return expectation			7.37%

### Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of Measurement Date	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Employer's Net Pension Liability	\$ 3,515,246	\$ 2,422,514	\$ 1,481,232

## NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

### Summary of Significant Accounting Policies

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

### PERS Disclosure for the Defined Contribution Plan

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

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

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

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

At the plan level for the measurement period ended June 30, 2016, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 289 employers that have participants in the PERS-DCRP totaled \$382,656.



## NOTE 9. NET POSITION

Net position consists of the following as of June 30, 2017:

<b>Net investment in capital assets</b>	
Capital assets	\$ 95,834,821
Less: current liabilities	
Current portion of bonds payable for amount invested in capital assets	(565,000)
Less: long-term liabilities	
Bonds payable for amount invested in capital assets, less current portion	(12,835,000)
	82,434,821
<b>Restricted net position</b>	
Capital projects and debt service	5,703,974
Customs	143,031
	5,847,005
<b>Unrestricted net position</b>	21,764,597
<b>Total net position</b>	<b>\$ 110,046,423</b>

## NOTE 10. PROPERTY LEASED TO OTHERS

The Authority leases a portion of its property to commercial airlines, car rental companies, concessionaires, fixed base operators who service the aviation industry, private hangar owners and the Federal Aviation Administration. These leases are non-cancelable operating leases. Certain lease agreements, by their terms, require annual redetermination of the rental charge based on predetermined formulas. The minimum future rentals for these leases were determined using the rates in effect at June 30, 2017. Minimum rentals on non-cancelable leases for the next five years ending June 30 are approximately as follows:

2018	\$ 3,923,731
2019	\$ 3,930,089
2020	\$ 3,926,967
2021	\$ 2,419,074
2022	\$ 1,767,060

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 \$3,375,254 for the year ended June 30, 2017 and were in excess of the minimum annual guarantee.

#### NOTE 11. PASSENGER FACILITY CHARGE PROGRAM

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

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

The active PFC approved project during the year ended June 30, 2017 was PFC 09-05-C-00-BZN. The PFC project No. 09-05-C-00-BZN effective July 1, 2011, authorized a charge of \$4.50 per enplaned passenger and total project expenditures of \$29,000,000. This project expires March 1, 2029.

#### NOTE 12. CUSTOMER FACILITY CHARGES

Customer facility charges (CFCs) are levied by the Authority pursuant to an agreement with the rental car companies serving the Authority. The CFC rate was \$2.75 per contract rental day through May 31, 2017. The rate was increased to \$4.25 per contract rental day effective June 1, 2017.

#### NOTE 13. RELATED PARTIES

Kevin Kelleher (Board Member) as a member of Sunnyside Storage Condo Association, entered into a 10-year lease with the Authority on March 1, 1996. An option for a 10-year renewal was taken. Lease revenues for the year ended June 30, 2017 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, 2017 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, 2017 were \$1,800.

The only amount due to or from any of these related parties as of June 30, 2017 was \$105 due from Karen Stelmak.

#### NOTE 14. CONCENTRATIONS

The Gallatin Airport Authority receives a significant portion of its operating revenues from leasing the parking facility. The revenues from this lease accounted for approximately 26% of operating revenues for the year ended June 30, 2017.

#### NOTE 15. COMMITMENT

The Authority had entered into an agreement with Gallatin County, City of Belgrade, and Montana Department of Transportation for the planning and construction of the new Interstate 90 interchange and connector roadways located in the vicinity of Bozeman Yellowstone International Airport. The Authority had committed funding not-to-exceed \$3,000,000 for this project. As of June 30, 2017, this commitment had been substantially met and any remaining liability has not be determined.

#### NOTE 16. RISK MANAGEMENT

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

#### NOTE 17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2017, the date on which these financial statements were available to be issued.

# Required Supplementary Information – Pension Schedules

Year Ended June 30, 2107

## SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

As of Measurement Date	2016	2015	2014
Employer's proportion of the net pension liability	0.1422%	0.1396%	0.1401%
Employer's net pension liability	\$ 2,422,514	\$ 1,951,981	\$ 1,745,531
State's Net Pension Liability	\$ 29,600	\$ 23,977	\$ 21,316
Total Net Pension Liability	\$ 2,452,114	\$ 1,975,958	\$ 1,766,847
Employer's covered payroll	\$ 1,703,557	\$ 1,629,621	\$ 1,610,223
Employer's proportionate share as a percentage as of covered payroll	142.20%	119.78%	111.22%
Plan fiduciary net position as a percentage Total Pension Liability	74.70%	78.40%	79.90%

## SCHEDULE OF CONTRIBUTIONS

As of Most Recent FYE (reporting date)	2017	2016	2015
Contractually required DB contributions	\$ 148,936	\$ 142,393	\$ 134,287
Plan Choice Rate required contributions	\$ -	\$ 9,383	\$ 15,244
Contributions in relation to the contractually required contributions	\$ 148,936	\$ 151,776	\$ 149,531
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 1,779,381	\$ 1,703,557	\$ 1,629,621
Contributions as a percentage of covered payroll	8.37%	8.91%	9.18%

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

# Notes to the Required Supplementary Information

Year Ended June 30, 2107

## CHANGES IN BENEFIT TERMS

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

### 2013 Legislative Changes:

*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  
Second Retirement Benefit*

- I. Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and
  - GABA starts again in the January immediately following second retirement.
- II. For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
  - members receive a recalculated retirement benefit based on laws in effect at second retirement; and,
  - GABA starts in the January after receiving recalculated benefit for 12 months.
- III. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination; and,
  - GABA starts again in the January immediately following second retirement.

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

*Revised DC Funding Laws – House Bill 107, effective 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.

### CHANGE IN ACTUARIAL ASSUMPTIONS AND METHODS

*Method and assumptions used in calculations of actuarially determined contributions*

The following addition was adopted in 2014 based upon implementation of GASB 68:

- Admin Expense as % of Payroll      0.27%

There were no changes following the 2013 Economic Experience study.

The following Actuarial Assumptions were adopted from the June 2010 Experience Study:

- General Wage Growth \*                      4.00%  
    \* includes inflation at                      3.00%
- Merit increase                                      0% to 6.0%
- Investment rate of return                      7.75 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

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



# Statistical Section Introduction

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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 ..... 63

*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 ..... 65

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

Debt Capacity ..... 66

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

Operating Information ..... 67

*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 ..... 72

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

# Net Position and Changes in Net Position

Ten Years Ended June 30

	Dollars in 000's									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating revenues	\$ 10,498	9,630	8,918	8,192	7,271	7,021	6,410	5,214	5,117	5,189
Operating expenses	5,186	4,639	4,434	4,221	3,739	3,753	3,396	2,924	2,853	2,915
Operating income, before depreciation	5,312	4,991	4,484	3,971	3,532	3,268	3,014	2,290	2,264	2,274
Less: depreciation	4,182	3,976	3,848	3,839	3,809	3,138	2,804	2,350	2,220	1,933
Operating income (loss)	1,130	1,015	636	132	(277)	130	210	(60)	44	341
Net nonoperating revenues (expenses)	2,839	2,409	(839)	(492)	(2,532)	(376)	(261)	(70)	357	578
Capital contributions	6,866	3,358	4,688	3,454	5,459	6,171	10,943	7,974	938	4,054
Change in net position	\$ 10,835	6,782	4,485	3,094	2,650	5,925	10,892	7,844	1,339	4,973
Net investment in capital assets	\$ 82,435	72,958	71,296	70,700	68,139	70,951	68,968	51,862	45,450	41,408
Restricted	5,847	4,672	3,824	3,890	3,689	4,321	3,743	1,374	253	624
Unrestricted	21,764	21,581	17,309	15,427	15,095	9,262	5,898	14,481	14,170	16,502
Total net position	\$ 110,046	99,211	92,429	90,017	86,923	84,534	78,609	67,717	59,873	58,534

Source: Gallatin Airport Authority records



# Changes in Cash and Cash Equivalents

Ten Years Ended June 30

	Dollars in 000's									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Cash from operating activities</b>										
Receipts from customers	\$ 10,849	8,794	9,133	8,310	6,797	7,375	6,141	5,251	5,174	5,049
Payments to suppliers	(1,909)	(1,771)	(1,617)	(1,283)	(1,301)	(1,938)	(1,856)	(1,472)	(1,457)	(1,731)
Payments to employees	(3,225)	(2,941)	(2,825)	(2,549)	(2,419)	(1,684)	(1,582)	(1,425)	(1,445)	(1,137)
	5,715	4,082	4,691	4,478	3,077	3,753	2,703	2,354	2,272	2,181
<b>Cash from noncapital financing activities</b>										
	7	(79)	(422)	2	(1,763)	-	-	-	-	18
<b>Cash from capital and related financing activities</b>										
Capital asset purchases	(11,756)	(4,702)	(4,705)	(5,087)	(785)	(5,170)	(26,338)	(18,073)	(5,961)	(4,326)
Grant receipts (payments)	5,401	3,362	2,940	3,035	2,676	4,348	6,281	5,916	(18)	3,385
Passenger fac. charge receipts	2,183	2,022	1,872	1,826	1,684	1,506	1,443	1,308	839	826
Customer fac. charge receipts	1,095	878	750	633	582	450	421	224	-	-
Bond proceeds received	-	-	-	-	-	-	-	16,000	-	-
Bond principal payments	(550)	(535)	(520)	(505)	(490)	-	-	-	-	-
Bond interest payments	(592)	(608)	(624)	(639)	(653)	(653)	(653)	(399)	-	-
Other receipts (payments)	-	-	-	56	-	560	-	(340)	(17)	(316)
	(4,219)	417	(287)	(681)	3,014	1,041	(18,846)	4,636	(5,157)	(431)
<b>Cash from investing activities</b>										
Investments purchased	-	-	-	-	(23)	(3)	(36)	(1,144)	-	(10,500)
Interest received	62	93	128	182	269	310	420	199	33	487
Investment sale proceeds	-	-	-	-	1,149	-	7,456	3,633	-	-
Reclass of investments	-	-	23	-	-	-	-	-	-	-
	62	93	151	182	1,395	307	7,840	2,688	33	(10,013)
Net increase (decrease) in cash and cash equivalents	1,565	4,513	4,133	3,981	5,723	5,101	(8,303)	9,678	(2,852)	(8,245)
Cash and cash equivalents, beginning of year	27,626	23,112	18,979	14,998	9,275	4,174	12,477	2,799	5,651	13,896
Cash and cash equivalents, end of year	\$ 29,191	27,626	23,112	18,979	14,998	9,275	4,174	12,477	2,799	5,651

Source: Gallatin Airport Authority records

# Operating Revenues, Airline Cost Per Enplanement, and Airline Rates

Ten Years Ended June 30

	Revenues and Enplanements in 000's									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Airline Revenues</b>										
Landing fees	\$ 624	619	605	573	571	556	521	466	478	524
Terminal rentals	895	848	853	818	791	788	737	692	719	678
	1,519	1,467	1,458	1,391	1,362	1,344	1,258	1,158	1,197	1,202
<b>Non-airline Revenues</b>										
Rental car	3,218	2,743	2,624	2,416	2,095	2,071	1,962	1,574	1,550	1,609
Parking	2,753	2,590	2,396	2,113	1,819	1,674	1,433	1,090	1,107	1,060
Other terminal rents and concessions	1,465	1,384	1,110	1,030	924	829	626	473	463	472
General aviation	617	570	519	482	462	454	458	437	415	474
Air cargo	43	41	39	38	38	37	37	37	31	29
Other	883	834	772	722	571	612	637	444	353	341
Total operating revenues	\$ 10,498	9,629	8,918	8,192	7,271	7,021	6,411	5,213	5,116	5,187
Scheduled enplanements	572	529	498	456	439	407	385	364	343	351
Airline cost per enplanement	\$ 2.66	2.77	2.93	3.05	3.11	3.30	3.27	3.18	3.49	3.42
<b>Airline Rates</b>										
Landing fee (per 1,000 lbs. over 12,500 GLW)	\$ 1.02	1.06	1.06	1.14	1.11	1.11	1.15	1.12	1.12	1.03
Terminal rents (per sq. ft. per year):										
Finished	\$ 22.27	22.27	22.27	22.27	22.27	22.27	22.27	21.62	21.06	21.89
Unfinished	\$ 12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97	12.97
Jetway rent (per use)	\$ 10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

Source: Gallatin Airport Authority records



# Debt Service, Coverages, and Ratios

Ten Years Ended June 30

	Dollars and Enplanements in 000's									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Outstanding debt –										
2009 revenue bonds	\$ 13,400	13,950	14,485	15,005	15,510	16,000	16,000	16,000	-	-
Enplaned passengers	574	531	500	458	440	408	386	365	343	351
Outstanding debt per enplaned passenger	\$ 23.34	26.27	28.97	32.76	35.25	39.22	41.45	43.84	-	-
Principal	\$ 550	535	520	505	490	-	-	-	-	-
Interest	592	608	624	639	653	653	653	399	-	-
Debt service –										
2009 revenue bonds	\$ 1,142	1,143	1,144	1,144	1,143	653	653	399	-	-
Net revenues available for debt service	\$ 8,151	7,400	5,584	5,245	2,713	4,491	4,243	3,518	3,592	3,670
Debt service *	1,142	1,143	1,144	1,144	1,143	653	653	399	-	-
Debt service coverage	\$ 7.14	6.47	4.88	4.59	2.37	6.87	6.49	8.81	0.00	0.00

\* There was no outstanding debt in fiscal years 2008 and 2009

Source: Gallatin Airport Authority records

# Aircraft Operations and Total Passengers

Ten Years Ended June 30

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Aircraft Operations</b>										
Air carrier	10,735	9,990	10,388	8,642	8,708	7,908	7,587	7,307	7,815	8,261
Air taxi	9,009	8,923	8,336	9,454	9,222	9,470	10,385	9,269	9,189	10,952
GA itinerant	31,108	30,456	30,135	28,178	27,875	28,387	25,828	26,608	27,608	31,931
Military	297	340	220	315	262	285	173	264	255	635
<b>Total itinerant</b>	<b>51,149</b>	<b>49,709</b>	<b>49,079</b>	<b>46,589</b>	<b>46,067</b>	<b>46,050</b>	<b>43,973</b>	<b>43,448</b>	<b>44,867</b>	<b>51,779</b>
<b>GA local</b>	<b>25,794</b>	<b>30,920</b>	<b>30,653</b>	<b>31,893</b>	<b>30,770</b>	<b>36,066</b>	<b>26,050</b>	<b>23,693</b>	<b>30,012</b>	<b>30,478</b>
<b>Total aircraft operations</b>	<b>76,943</b>	<b>80,629</b>	<b>79,732</b>	<b>78,482</b>	<b>76,837</b>	<b>82,116</b>	<b>70,023</b>	<b>67,141</b>	<b>74,879</b>	<b>82,257</b>
<b>Total Passengers</b>										
Enplanements	573,767	530,903	499,977	457,716	440,203	408,199	386,092	365,210	342,714	351,214
Deplanements	574,580	529,829	497,664	459,844	437,043	409,910	385,157	362,838	340,563	351,281
<b>Total passengers</b>	<b>1,148,347</b>	<b>1,060,732</b>	<b>997,641</b>	<b>917,560</b>	<b>877,246</b>	<b>818,109</b>	<b>771,249</b>	<b>728,048</b>	<b>683,277</b>	<b>702,495</b>
<b>Growth</b>	<b>8.3%</b>	<b>6.3%</b>	<b>8.7%</b>	<b>4.6%</b>	<b>7.2%</b>	<b>6.1%</b>	<b>5.9%</b>	<b>6.6%</b>	<b>-2.7%</b>	<b>4.7%</b>

Source: Gallatin Airport Authority records

# Enplanements and Load Factor by Air Carrier

Ten Years Ended June 30

	Enplanements in 000's									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Delta</b>										
Enplanements	214	223	202	188	169	161	158	119	82	93
Load factor	85.9%	85.3%	82.8%	86.8%	86.5%	86.2%	82.1%	89.1%	73.6%	77.1%
<b>Northwest</b>										
Enplanements	-	-	-	-	-	-	-	37	75	93
Load factor	-	-	-	-	-	-	-	87.0%	71.0%	77.5%
<b>United</b>										
Enplanements	208	177	160	150	137	124	129	120	99	95
Load factor	82.6%	83.2%	80.3%	87.3%	85.8%	84.7%	80.3%	90.0%	78.3%	72.2%
<b>Alaska</b>										
Enplanements	89	82	70	53	48	44	40	37	31	40
Load factor	86.3%	84.7%	82.7%	84.5%	81.0%	79.3%	70.3%	86.9%	71.5%	72.3%
<b>Frontier</b>										
Enplanements	14	16	37	36	48	46	35	36	43	27
Load factor	83.9%	86.6%	89.7%	87.4%	81.4%	80.4%	81.0%	69.8%	54.4%	304.5%
<b>Allegiant</b>										
Enplanements	29	29	29	30	38	32	23	16	13	3
Load factor	88.2%	86.6%	86.5%	89.9%	92.0%	89.3%	88.6%	99.7%	114.0%	0.0%
<b>American</b>										
Enplanements	19	2	-	-	-	-	-	-	-	-
Load factor	1	1	-	-	-	-	-	-	-	-
<b>Total scheduled</b>										
enplanements	572	529	498	457	440	407	385	365	343	351
Average load factor	84.6%	84.6%	82.6%	86.9%	85.5%	84.5%	80.3%	87.0%	71.9%	79.8%
<b>Charter</b>										
Enplanements	2	1	2	1	2	1	1	1	-	-
<b>Total enplanements</b>	<b>574</b>	<b>530</b>	<b>500</b>	<b>458</b>	<b>442</b>	<b>408</b>	<b>386</b>	<b>366</b>	<b>343</b>	<b>351</b>

Source: Gallatin Airport Authority records

# Budgeted Employees by Department

Ten Years Ended June 30

Year	Airport Maintenance & ARFF	Building Maintenance & Custodial	Public Safety	Administration	Total
2017	15	8	7	5	35
2016	12	8	7	5	32
2015	12	7	7	5	31
2014	12	7	7	5	31
2013	11	7	7	5	30
2012	11	7	7	5	30
2011	11	7	7	5	30
2010	10	6	6	5	27
2009	10	6	6	4	26
2008	10	6	-	4	20

Source: Gallatin Airport Authority's operating budget records

# Insurance Coverage

As of June 30, 2017

Policy Type	Insurer	Coverage	Expiration
Buildings	Cincinnati Insurance	\$ 67,548,728	8/10/2017
Business personal property	Cincinnati Insurance	\$ 1,137,747	8/10/2017
Automobile	Cincinnati Insurance	\$ 1,000,000	8/10/2017
Umbrella	Cincinnati Insurance	\$ 3,000,000	8/10/2017
Mobile equipment	Cincinnati Insurance	\$ 281,700	8/10/2017
Employee theft	Cincinnati Insurance	\$ 50,000	8/10/2017
Employment practices	Cincinnati Insurance	\$ 1,000,000	8/10/2017
Directors & officers	Cincinnati Insurance	\$ 1,000,000	8/10/2017
Aviation	Ace Property and Casualty	\$ 60,000,000	8/10/2017
Law enforcement	Allied World	\$ 1,000,000	8/10/2017

Source: Gallatin Airport Authority records

<b>Location:</b>	9 miles northwest of Bozeman, MT		
<b>Area:</b>	Fee title	1,959	acres
	Easement controlled	1,334	acres
	State lease	93	acres
	<b>Total</b>	<b>3,386</b>	<b>acres</b>
<b>Airport code:</b>	BZN		
<b>Elevation:</b>	4,475'		
<b>Runways:</b>	12/30	Paved	8,994' x 150'
	03/21	Paved	2,650' x 75'
	11/29	Turf	3,197' x 80'
	11/29	Paved (U.C.)	5,050' x 75'
<b>Terminal:</b>	205,000 sq. ft.		
<b>Terminal apron:</b>	671,150 sq. ft.		
<b>Parking spaces:</b>	Pay parking Long-term		1,483
	Pay parking short-term		355
	Rental car - ready		275
	Rental car - return		332
	<b>Total rental car</b>		<b>607</b>
	Employee parking		271
	<b>Total</b>		<b>3,323</b>
<b>Apron areas:</b>	Terminal	755,765	sq. ft.
	Old terminal	66,829	sq. ft.
	General aviation	621,870	sq. ft.
	Tie-down	125,985	sq. ft.
	East ramp	610,385	sq. ft.
	<b>Total</b>	<b>2,180,834</b>	<b>sq. ft.</b>
<b>Based aircraft:</b>	Sailplane		11
	Single engine (piston)		252
	Twin engine (piston)		17
	Single engine (turboprop)		8
	Twin engine (turboprop)		7
	Single engine (jet)		4
	Multi engine (jet)		38
	Helicopter		23
	<b>Total</b>		<b>360</b>
<b>Hangars:</b>	193		
<b>Fixed based operators:</b>	Arlin's Aircraft Yellowstone Jetcenter		
<b>International:</b>	U.S. Customs User Fee Facility		

Source: Gallatin Airport Authority records



# Demographic and Economic Statistics

Ten Years Ended June 30

## GALLATIN COUNTY

Year	Population	Per Capita Personal Income	Personal Income (in 000's)	Unemployment Rate
2017	unavailable	unavailable	unavailable	unavailable
2016	104,502	unavailable	unavailable	2.7%
2015	100,739	46,337	4,667,943	2.9%
2014	97,308	42,350	4,120,994	2.9%
2013	94,694	41,137	3,895,427	3.4%
2012	92,604	40,653	3,764,630	4.4%
2011	91,333	38,058	3,475,951	5.1%
2010	89,599	35,477	3,178,704	5.8%
2009	90,343	34,710	3,135,806	6.0%
2008	89,812	36,383	3,267,630	3.6%

## MONTANA

Year	Population	Per Capita Personal Income	Personal Income (in 000's)	Unemployment Rate
2017	unavailable	unavailable	unavailable	3.9%
2016	1,042,646	42,386	44,193,593	4.2%
2015	1,032,949	41,280	42,640,135	4.1%
2014	1,023,579	39,903	40,843,873	4.7%
2013	1,014,864	38,884	39,461,972	5.4%
2012	1,005,163	39,102	39,303,884	6.1%
2011	997,661	36,959	36,872,553	7.0%
2010	990,575	34,737	34,409,604	7.3%
2009	974,989	33,627	32,785,955	6.9%
2008	968,035	34,912	33,796,038	4.9%

Sources:

Census Bureau

Bureau of Economic Analysis

# Principal Employers in Region

Year Ended June 30, 2017

Current Year *		2008	
Private Employers By Class	Number of Employees	Private Employers By Class	Number of Employees
Bozeman Deaconess Hospital	1,000 +	Bozeman Deaconess Hospital	1,000 +
Oracle America	250 to 499	Albertson's	250 to 499
Town Pump Convenience Stores	250 to 499	Right Now Technologies	250 to 499
Wal Mart	250 to 499	Wal Mart	250 to 499
Albertson's	100 to 249	Zoot Enterprises	250 to 499
Barnard Construction	100 to 249	Bay Bar and Grill	100 to 249
Best Western Gran Tree Inn	100 to 249	Bozeman Daily Chronicle	100 to 249
Bridger Bowl	100 to 249	Community Food Co-Op	100 to 249
Community Food Co-Op	100 to 249	Costco	100 to 249
Costco	100 to 249	JTL Group	100 to 249
First Student	100 to 249	Kenyon Noble Lumber & Hardware	100 to 249
JC Billion	100 to 249	Laidlaw Transit	100 to 249
Kenyon Noble Lumber & Hardware	100 to 249	Martel Construction	100 to 249
Korman Marking Group	100 to 249	McDonalds	100 to 249
Martel Construction	100 to 249	Murdoch's Ranch & Home Supply	100 to 249
McDonalds	100 to 249	On Site Management	100 to 249
Murdoch's Ranch & Home Supply	100 to 249	Ressler Motors	100 to 249
Ressler Motors	100 to 249	Riverside Country Club	100 to 249
Rosauers Super Markets	100 to 249	Simkin Hallin Lumber	100 to 249
Target	100 to 249	Williams Plumbing & Heating	100 to 249
Public Employers By Class	Number of Employees	Public Employers By Class	Number of Employees
Montana State University	1,000 +	Montana State University	1,000 +
School District #7	1,000 +	School District #7	1,000 +
City of Bozeman	250 to 499	City of Bozeman	250 to 499
Gallatin County	250 to 499	Gallatin County	250 to 499

\* 2016 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

- Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards
- Independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance
- Schedule of expenditures of federal awards
- Schedule of findings and questioned costs
- Independent auditor's report on compliance with requirements that could have a direct and material effect on the passenger facility charge program and on internal control over compliance applicable to the passenger facility charge program
- Schedule of passenger facility charge collections, interest and disbursements



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, 2017, 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 18, 2017.

### **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*.

October 18, 2017  
Gallatin Airport Authority  
Page two

**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 18, 2017



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, 2017. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

### **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 18, 2017

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Source / Program	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION		
Small Community Air Service Development	20.930	\$ 163,742
Federal Aviation Administration - Airport Improvement Program (AIP)		
Project No. 3-30-0010-42	20.106	4,789
Project No. 3-30-0010-44	20.106	800
Project No. 3-30-0010-45	20.106	3,397,182
Project No. 3-30-0010-46	20.106	2,934,703
Project No. 3-30-0010-47	20.106	528,465
Total U.S. Dept. of Transportation		\$ 7,029,681
Total expenditures of federal awards		\$ 7,029,681

## 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, 2017 has been subjected to the applicable compliance testing requirements prescribed by the Uniform Guidance.

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of audit report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency disclosed? No
- Material weaknesses disclosed? No
- Material noncompliance disclosed? No

Federal Awards

Type of auditor's report on compliance for the major federal program: Unmodified

Internal control over the major program:

- Significant deficiency disclosed? No
- Material weaknesses disclosed? No

Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a)? No

Identification of major program: Airport Improvement Program (AIP) CFDA 20.106

Dollar threshold to distinguish between Type A and Type B programs: \$750,000

Auditee qualifies as a low-risk auditee? Yes

II. FINANCIAL STATEMENT FINDINGS

None reported

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported

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

Board of Commissioners  
Gallatin Airport Authority  
Belgrade, Montana

### **Report on Compliance for the Passenger Facility Charge Program**

We have audited Gallatin Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide) that could have a direct and material effect on its passenger facility charge (PFC) program for the year ended June 30, 2017.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Authority's PFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States; and the *Passenger Facility Charge Audit Guide for Public Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

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

### **Opinion**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2017.

## **Report on Internal Control Over Compliance**

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

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

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

## **Purpose of This Report**

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

*Holmes & Turner*

October 18, 2017



# Schedule of Passenger Facility Charge Collections, Interest and Disbursements

Year Ended June 30, 2017

	Total June 30, 2016	FY 2017 Activity				Total June 30, 2017
		1st qtr	2nd qtr	3 qtr	4th qtr	
Collections	\$ 21,441,789	568,951	580,691	450,645	582,757	\$ 23,624,833
Interest	288,259	473	609	971	1,015	291,327
Disbursements	(20,226,351)	-	(295,993)	-	(845,993)	(21,368,337)
Cash balance	\$ 1,503,697	\$ 569,424	\$ 285,307	\$ 451,616	\$ (262,221)	\$ 2,547,823



