GALLATIN AIRPORT AUTHORITY

AUDITED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

GALLATIN AIRPORT AUTHORITY

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INTRODUCTORY SECTION

GALLATIN AIRPORT AUTHORITY
JUNE 30, 2014

ORGANIZATION

BOARD OF COMMISSIONERS

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

AIRPORT DIRECTOR

Brian Sprenger, A.A.E.

DEPUTY AIRPORT DIRECTOR

Scott Humphrey, A.A.E.

OFFICE MANAGER

Cherie Ferguson, C.M.

holmes & turner

CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

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BOZEMAN, MONTANA 59715
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Gallatin Airport Authority (Airport), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Airport'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 audits. We conducted our audits 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 Gallatin Airport Authority, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years 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 information on pages 5-17 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 accompanying schedules of in-force insurance and passenger facility charges collected and expended are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The accompanying schedules of in-force insurance, passenger facility charges and the schedule of expenditures of federal awards 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, the schedules of in-force insurance, passenger facility charges collected and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014 on our consideration of Gallatin Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gallatin Airport Authority's internal control over financial reporting and compliance.

Holmes & Turner

November 5, 2014

FINANCIAL SECTION

BZN Bozeman Yellowstone INTERNATIONAL AIRPORT

Gallatin Airport Authority Year in Review FY 2014

Annual Report FY 2014

Inside this issue:

Introduction—The management of the Gallatin Airport Authority has prepared the following discussion and analysis of the financial performance and activity of the Gallatin Airport Authority for the fiscal year ended June 30, 2014. The discussion and analysis should be read in conjunction with the entire 2014 fiscal year annual audit. This discussion and analysis consists of the following financial statements so that the reader can understand the financial condition of the Gallatin Airport Authority:

- Activity Highlights – Detail of activities at Bozeman Yellowstone International Airport that affect the financial performance of the Gallatin Airport Authority
- Financial Highlights – Details of the FY 2014 Gallatin Airport Authority income and expenditures
- Changes in Net Position – Detail of activities that contributed to the changes in net assets during FY 2014

Kevin Kelleher
Chair

Ted Mathis
Vice Chair

Carl Lehrkind IV
Secretary

Kendall Switzer
Member

Karen Stelmak
Member

Mission:

The Gallatin Airport Authority was established in 1972 as an independent agency to address the region's long-term air service needs. The Mission of the Gallatin Airport Authority mandated the Board plan for, provide, operate and safely maintain an aviation facility adequate to the needs of the flying public and to keep the airport self-sustaining.

Airport Staff

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

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

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

Chief, Public Safety:
Bill Dove

Office Manager:
Cherie Ferguson, C.M.

Office Assistants:
Connie Janzer
Meggie Moeller

Maintenance Supervisor:
Chuck Rasnick
Building Maintenance Supervisor:
Rhett Boerger

Ops. & Maintenance Staff:
Pat Teague
Joel Dykstra
Wes Mork
Lee Huyser
Dave Morrow
Larry Thompson
Shaun Dudley
Jim Gundersen
Jes Sullivan

Public Safety Officers:
Kerry Bickle
Ken Dove
Jeff McRae
Rick Shirey
Greg Bankert
Brandon Arnold

Custodial:
John Story
Rod Freese
Joshua Norris
Vicki Anderson
Brad Watts
Randy Robinson
Ashley Fowler

Director's Report - Brian Sprenger, A.A.E.

What do a half billion dollars in economic impact and zero dollars of local taxation have in common? Bozeman Yellowstone International Airport (BZN). BZN now generates almost $500 million in economic impact every year for our local economy. In addition, the Gallatin Airport Authority has not received local tax dollars for over 25 years. Tenants that operate at the airport contribute over $800,000 in local taxes (approximately 75% of the $800,000 is paid by the airlines). We are proud that BZN has become an economic engine for the local economy with no local tax burden.

Operationally, in fiscal year 2014, we continued record setting growth with a total of 917,560 passengers (enplanements and deplanements) traveling through Montana's busiest airport, up 4.5% over the previous record set in FY 2013. New airline service during the year was initiated by Delta Air Lines to New York's LaGuardia airport and by United Airlines to Houston's Intercontinental Airport resulting in non-stop service to fourteen destinations in thirteen states coast to coast this past summer. Twenty-seven percent of all passengers flying into or out of Montana now fly through BZN. Additionally, tower operations increased by 2.1% to 78,482 during FY 2014.

Financially, the Airport Authority depends on our passengers with over 90% of the Airport Authority's revenue 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. In simple financial terms, this means if we attract additional seats, we generate additional revenue but if we lose seats, we lose revenue. 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. This philosophy is possible because of many factors including strict cost controls, a highly professional and cross utilized staff and a fiscally conservative capital improvement program.

This year, total operating revenue was up 12.2% to $7,824,487 while operating expenses were $3,963,733, up just 6.0% resulting in operating income of $3,860,754 up 0.4%. Concession revenues on a per passenger basis increased 10.5% to $10.98 per passenger and that combined with an overall increase in passengers resulted in total concession revenues increasing by 14.2% in FY 2014. In addition, cash on hand (restricted and unrestricted) increased $3,981,627 from $14,997,504 to $18,979,132.

Our success would not be possible without highly dedicated and knowledgeable members of our Airport Board and the exceptional 31 professionals on airport staff. We believe our financial stability combined with experienced staff make our airport well positioned to address any challenge within the industry while providing excellent customer service each and every day. 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.

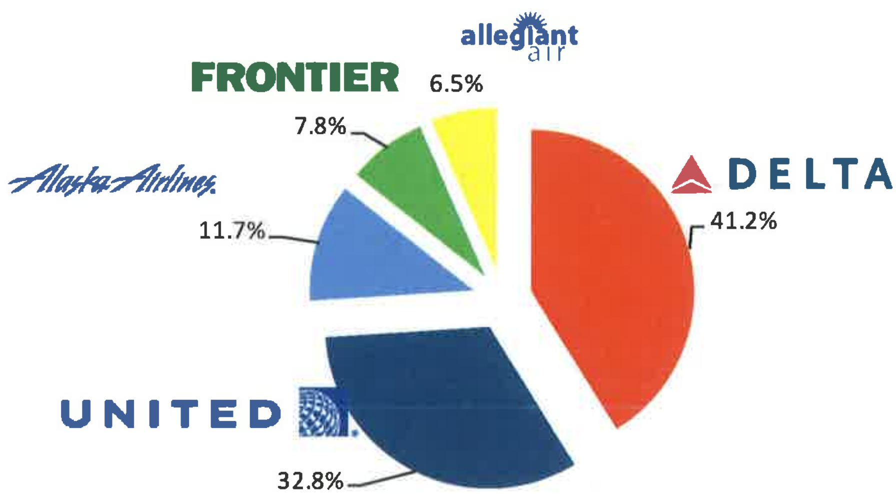
ENPLANEMENTS 4.0%

Enplanements increased 4.0% as 457,716 revenue passengers boarded flights and 917,560 passengers passed through the terminal. This year, United Airlines launched seasonal service to Houston's George Bush Intercontinental Airport (IAH) and brought back direct service to New York's Liberty International Airport in New Jersey with three weekly departures. Delta Air Lines operated daily Atlanta, Georgia (ATL) service throughout the summer and added Saturday only service to New York's LaGuardia Airport (LGA). Alaska Airlines continued seasonal summer service to Portland Oregon's International Airport (PDX) while increasing daily service to Seattle-Tacoma International Airport (SEA). Seat capacity increased 4.1% over this timeframe. The airport's average load factor was 85.3%

Year Round Non-Stop Destinations:
Denver
Minneapolis
Chicago
Seattle
Salt Lake City
Las Vegas

Seasonal Non-Stop Destinations:
Atlanta
Houston Intercontinental
Los Angeles
New York - LaGuardia
New York / New Jersey
Phoenix / Mesa
Portland
San Francisco

TOTAL MARKET SHARE



REVENUE ENPLANEMENTS BY CARRIER

Airline	FY 2014 Seats	FY 2014 Revenue Enplanements	FY 2014 Revenue Load Factor %
Delta	216,606	187,650	86.6
United	180,882	149,947	82.9
Alaska	62,700	52,949	84.4
Frontier	41,196	36,312	88.1
Allegiant	33,380	29,558	88.6

Car Rental Concession Revenue 13.9%

Total rental car revenue increased from $2,095,095 in FY 2013 to $2,416,366 in FY 2014. Revenue includes on and off-airport commission and rent. Transaction days (the number of days a vehicle is rented) increased 5.9% to 398,052 days in FY 2014. The average cost per-day of an on-airport rental car increased 7.5% to $56.01. On-airport rental agencies pay the Airport Authority the greater of a Minimum Annual Guarantee or 10% commission fee plus rent for office space and parking stalls. The airport has agreements with a number of smaller off-airport rental car agencies that generated $26,226 in annual commissions.

On-Airport Brand	Concession Fee FY2014	Market Share
Hertz	$800,172	35.3%
Avis/Budget	$523,401	23.1%
Alamo/National	$499,448	22.0%
Enterprise	$284,398	12.5%
Dollar/Thrifty	$160,869	7.1%

Parking Revenue 16.1%

The Authority has an agreement with Standard Parking Inc. to manage parking operations for the airport. Commissions from parking operations increased 16.1% from $1,806,959 in FY 2013 to $2,098,454 in FY 2014. Gross parking revenue increased 15.4% from $2,084,570 to $2,404,895. The airport pays a percentage of revenue to Standard Parking Inc. for management of parking operations. Management fees for FY 2014 equaled 12.7% of gross parking revenue or $306,441 compared with 13.3% of gross revenue or $277,611 in FY 2013. The airport has a five-tier system that pays Standard Parking Inc. varied percentages for each $250,00 in revenue and a fixed percentage beyond $1,000,000 in revenue. Additionally, the airport receives revenue from parking permits sold to airline commuters which totaled $14,370.

Food & Retail Revenue 12.2%

Food and gift commission increased 12.2% to $564,933 in FY 2013 to $635,432 in 2014. Gift shop commission increased 10.8% to $329,234 while the restaurant commission increased 14.3% to $306,198.

	FY 2013	FY 2014	Increase/Decrease
Passenger Enplanements	440,203	457,716	4.0%
TOTAL CONCESSION FEES			
Rental Car Days	375,877	398,052	5.9%
On Airport Car Rentals	$1,957,689	$2,229,542	13.9%
Rental Car Daily Rates	$52.08	$56.01	7.5%
Food and Beverage	$272,938	$306,198	12.2%
Gift	$297,215	$329,234	10.8%
Ground Transportation	$71,364	$80,673	13.0%
Parking Lot	$1,806,958	$2,098,454	16.9%
TOTAL CONCESSION FEE REVENUE	**$4,406,164**	**$5,058,471**	14.8%
CONCESSION REVENUE/ENPLANEMENT			
Car Rentals	$4.45	$4.87	9.4%
Food and Beverage	$0.62	$0.67	8.1%
Gift	$0.68	$0.72	5.9%
Ground Transportation	$0.16	$0.18	12.5%
Parking Lot	$4.10	$4.61	12.4%
TOTAL CONCESSION REVENUE/ENEPLANEMENT	**$10.01**	**$11.05**	10.4%

Tower Operations 2.1%

Tower operations increased 2.1% with 78,482 operations. Tower operations are defined as a departure or arrival. Air carrier operations (which include air carrier and some air taxi operations) decreased 0.8%, which is attributed to a decrease in frequency with an increase in aircraft size. There were 4.1% more seats available in FY 2014 with an average aircraft capacity of 85.6 seats per departure vs. 80.7 seats per departure in FY 2013. Local general aviation activity increased 3.9% due to robust flight school activity. Corporate landings over 12,500 (business jets and Part 135 operators) increased 9.3% mirroring an increased confidence in the economy and diversification of global business located in Gallatin County.

OPERATIONS	% CHANGE FROM FY 2013	FY 2014
AIR CARRIER	(0.8)	8,642
AIR TAXI	2.5	9,454
ITINERANT GENERAL AVIATION	1.1	28,178
LOCAL GENERAL AVIATION	3.7	31,893
MILITARY	(6.5)	245
Corporate Landings > 12,500 lbs.	9.3	2,849

Fuel Flowage Income (2.1)%

Fuel flowage income decreased 2.1% to $114,115. Airline fuel sales decreased 2.4%, non-airline Jet A increased 4.8% while general aviation Avgas sales decreased 14.3%. Bozeman Yellowstone International Airport receives $.06 for every gallon pumped of Avgas and non-signatory airline and non-government Jet-A fuel.

Type of Fuel	% Change from FY2013	FY2014 Gallons Pumped
Jet A—Airlines	(2.4)	5,065,950
Jet A	4.8	1,952,519
Avgas	(14.3)	139,636

Cargo, Express & Mail 5.8%

Total cargo, express and air mail increased 5.8% to 4,674,211lbs. in FY 2014. FedEx moved 1,918,500bs. of cargo by air, and transferred 1,486,000lbs. of cargo by truck at its airport facility. The airport receives revenue from cargo operations through landing fees from FedEx, UPS and the airlines and by ground rent paid by cargo operators for their facilities .

Carrier	% Change from FY2013	FY 2014 LBS Moved
FedEx	4.6	3,404,500
UPS	7.1	940,319
Airlines	15.9	329,392

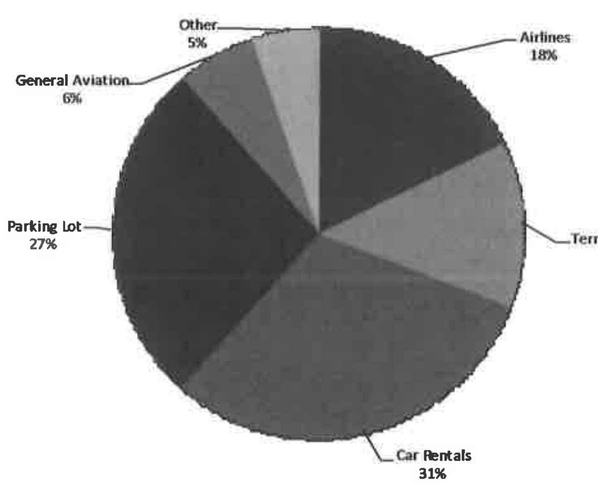
Statement of Net Position FY 2014: Provides insight into the financial position of the Gallatin Airport Authority at the end of the fiscal year 2014. The statement includes all assets and liabilities and indicates the current financial health of the Gallatin Airport Authority. Total assets increased $3,588,610 to $106,848,740 with final reimbursements for the terminal project and land acquisition south of the airport. A summary comparison to the right includes the Gallatin Airport Authority's position, liabilities and net position as of June 30, 2013 and June 30, 2014.

(1) Airport Master Plan, Bond Issuance Cost.

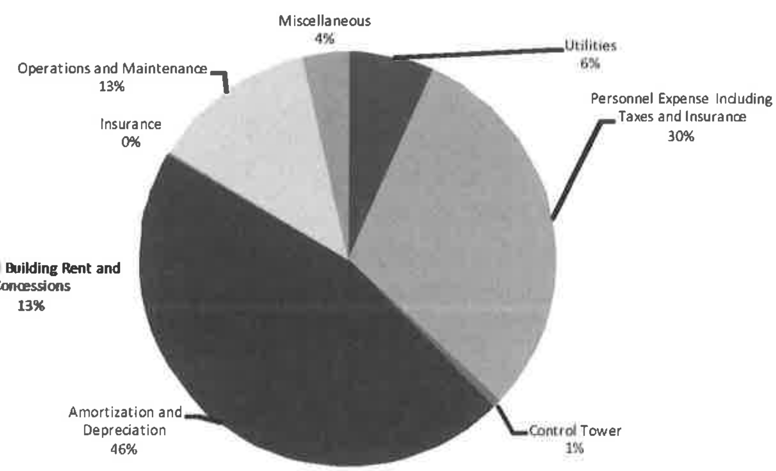
Statement of Net Position	FY2013	FY2014
Cash & Equivalents	$11,623,822	$15,345,052
Investments	$22,755	$22,787
Restricted Cash and Equivalents	$3,373,682	$3,634,080
Receivable/Prepaid Expense	$4,590,505	$2,141,996
Property, Plant & Equipment (including Accumulated Depreciation)	$83,408,057	$85,480,158
Other Assets (1)	$241,309	$224,667
Total Assets	**$103,260,130**	**$106,848,740**
Current Liabilities	$1,331,651	$2,346,983
Long-Term Liabilities 2009 Bonds	$15,005,000	$14,485,000
Total Liabilities	**$16,336,651**	**$16,831,983**
Net Position Invested in Capital	$68,139,366	$70,699,825
Net Position - Restricted	$3,688,614	$3,889,792
Net Position—Unrestricted	$15,095,499	$15,427,140
Total Net Position	**$86,923,479**	**$90,016,757**
Total Liabilities & Net Position	**$103,260,130**	**$106,848,740**

Changes in Net Assets	FY2013	FY2014
Operating Revenue	$6,975,180	$7,824,487
Operating Expense (including Depreciation and Amortization)	$(7,547,937)	$(7,786,075)
Operating Income	**$(572,757)**	**$38,412**
Non-Operating Income (Expense)	$(2,236,515)	$(398,728)
Capital Contributions	$5,458,916	$3,453,594
Increase in Net Position	**$2,649,644**	**$3,093,278**

Operating Revenue



Operating Expense



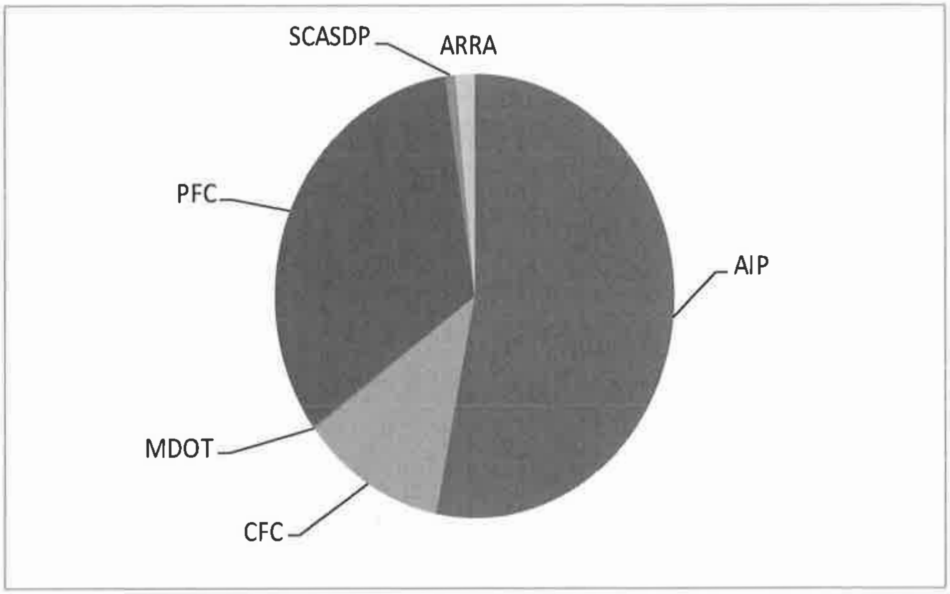
CASH INCOME: Net cash provided by operations up 16.9%. Net cash provided by non-operating activities down 154.2% due to capital projects and land donation associated with the interchange project. Cash provided by investments down 87% due to maturity of FY 2013 investments.

Airside Income: Landing fees, airline rent, general aviation and air cargo revenue up 2.7% to $1,911,088. Landing fees increased to $1.14 per thousand pounds for commercial gross landed weight. General aviation fees (rents, tie down fees, landing fees, fuel flowage fees) increased 4.5% to $482,389. Airside income is used to offset the cost for maintaining runways, taxiways, signage, utilities, the cost of snow removal, Airport Rescue and Fire Fighting and a portion of Public Safety.

Landside Income: Terminal building rents (excluding airlines), were up 11.6% to $1,030,264. Commissions from parking operations, and car rentals were up 15.4% to $4,529,190.

Statement of Cash Flows	FY2013	FY2014
Cash Income	$6,797,025	$8,310,094
Cash Payments	$(3,719,969)	$(3,831,858)
Net Cash Provided by Operations	**$3,077,056**	**$4,478,236**
Cash From Non-Operating Activities		
Net Purchases Property, Plant & Equipment	$(784,655)	$(5,086,718)
PFC Receipts	$1,683,650	$1,825,957
CFC Receipts	$582,553	$632,988
Grants Receipts	$2,675,653	$3,034,925
Payments to Other Agencies	$(1,886,625)	$(85,354)
Other	123,127	$143,616
Bond Principal and Interest Payments	$(1,143,486)	$(1,143,786)
Net Cash Provided by Non-Operating Activities	**$1,250,217**	**$(678,372)**
Investments Sold and Reclassified (CDs)	$1,125,881	-
Investments Purchased (CDs)	-	-
Interest Received	$269,044	$181,764
Net Cash Provided by Investing	**$1,394,925**	**$181,764**
Cash and Cash Equivalents at Beginning of the Year	$9,275,306	$14,997,504
Cash and Cash Equivalents at End of the Year	$14,997,504	$18,979,132
Net Increase (Decrease) in Cash Equivalents	**$5,722,198**	**$3,981,628**

Sources of Capital



Airport Improvement Plan **(AIP)** - The federal government collects various aviation user fees such as airline ticket tax, a tax on air freight, and taxes on aviation fuel sales and parts. Additionally, certain projects are eligible for funding from discretionary funds. Congress appropriates a portion of these user fees back to the airport system through AIP entitlements and discretionary grants. The airport received $2,875,032 in FY 2014 which covered the final close-out payment for the 2009 terminal project, payment for a federally mandated Wildlife Hazard Assessment and payment for expansion of the commercial ramp. AIP grants require the airport to provide 10% of the funds for each project with the remaining 90% paid by the AIP grant.

Small Community Air Service Development Program **(SCASDP)** - grant program designed to help small communities address air service and airfare issues, is managed by the Associate Director, Small Community Air Service Development Program, under the Department of Transportation. In 2011, the Airport was awarded a $950,000 grant to support BZN to New York Service (EWR). In FY 2014, the airport withdrew $43,789 of the grant.

The Montana Department of Transportation **(MDOT)**, through the Montana Department of Aeronautics, provides commercial service airports with a yearly Pavement Preservation Grant from a portion of airline gas tax revenues generated within the state of Montana. Grant money received under this program must be utilized specifically for pavement preservation projects that have a direct impact on pavements utilized by scheduled airline passenger service. The Airport received $10,000 in FY 2014.

Passenger Facility Charges **(PFC)** - Bozeman Yellowstone International Airport receives $4.50 from each enplaned revenue passenger less an airline handling fee of $0.11. Passenger Facility Charges are used for capital improvement projects. These capital projects are restricted to projects approved by the FAA in consultation with the airlines for the benefit of the passengers. The majority of the long-term PFC revenue ($1,766,737 in FY 2014) will be used to pay back the Revenue Bond used for the terminal project.

Customer Facility Charge **(CFC)** - The airport instituted a $2.75 customer facility charge in 2009 to build and maintain the consolidated rental car facility. In the same manner as a PFC, the airport, in consultation with the rental car agencies, agreed to levy a user fee to fund and maintain the $3.5 million dollar facility. In FY 2014, the airport received $632,988 in CFC revenue for capital improvements.

American Recovery and Reinvestment Act **(ARRA)** commonly referred to as the Stimulus or The Recovery Act, was an economic stimulus package enacted in February 2009 to stimulate the economy. The Airport was awarded a grant of $3,266,866 under the program in 2010 for construction and installation of an in-line baggage belt system for the new terminal. I n FY 2014, the Airport withdrew $83,409 of the grant to rectify a design flaw with the system.

GAA Bond Reporting

Historical Total Passengers

Year	Enplanements	Deplanements	Total	Growth
FY2014	457,716	459,844	917,560	4.6%
FY2013	440,203	437,043	877,246	7.2%
FY2012	408,199	409,910	818,109	6.1%
FY2011	385,992	385,157	771,149	5.9%
FY2010	365,210	362,838	728,048	6.5%
FY2009	342,714	340,563	683,277	-2.7%
FY2008	351,214	351,281	702,495	4.7%
FY2007	335,276	335,598	670,874	6.0%
FY2006	317,276	315,912	633,188	-5.8%
FY 005	335,679	336,803	672,482	8.5%
FY2004	308,985	310,558	619,543	9.9%
FY2003	281,052	282,871	563,923	3.0%
FY2002	274,499	273,026	547,525	6.9%

(FY) Airline Cost Per Enplanement

Year	Total Landing Fees	Airline Terminal Rents	Total Cost (Airline Payments)	Enplaned Passengers	Cost per Enplaned Passenger
2014	572,559	817,775	1,390,334	457,716	$3.04
2013	571,210	791,645	1,362,666	440,203	$3.10
2012	555,505	775,877	1,331,382	408,199	$3.26
2011	521,056	726,561	1,247,617	385,992	$3.23
2010	466,433	682,649	1,149,082	342,714	$3.35
2009	477,578	681,916	1,159,494	347,051	$3.34
2008	524,409	652,491	1,176,900	342,754	$3.43
2007	464,372	611,815	1,076,187	326,198	$3.30

Historical Enplanements By Airline

	FY2008		FY2009		FY2010		FY2011		FY2012		FY2013		FY2014	
Carrier	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share
Delta	93,478	26.6%	82,093	24.0%	155,924	42.7%								
							157,796	40.9%	161,312	39.5%	169,026	38.4%	187,650	41.0%
North-west	92,542	26.3%	75,426	22.0%	155,924	42.7%								
United	95,352	27.1%	98,560	28.8%	119,649	32.8%	128,789	33.4%	123,676	30.3%	136,586	31.0%	149,947	32.8.%
Alaska	39,626	11.3%	31,081	9.1%	37,070	10.2%	40,430	10.5%	43,906	10.8%	47,701	10.8%	52,949	11.7%
Frontier	27,039	7.7%	42,528	12.4%	35,847	9.8%	34,916	9.0%	45,777	11.2%	47,583	10.8%	36,312	7.8%
Allegiant	3,025	0.9%	12,894	3.8%	15,708	4.3%	23,000	6.0%	32,142	7.9%	37,661	8.6%	29,558	6.5%
Big Sky	152	0.0%	–											
Charters	0	0.0%	132	0.0%	1,012	0.3%	1,061	0.3%	1,386	0.3%	1,664	0.4%	1,228	0.2%
Totals	351,214	100.0%	342,714	100.0%	365,210	100.0%	385,992	100.0%	408,199	100.0%	440,203	100.0%	457,716	100.0%

Historical Fees and Rental Charges

Item	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2012	FY 2014
Landing Fee (per each 1,000 lbs. over 12,500 GLW)	$1.05	$1.03	$1.12	$1.12	$1.15	$1.11	$1.11	$1.14
Annual Terminal Rentals								
Finished (per sq. ft. per year)	$20.98	$21.89	$21.06	$21.62	$22.27	$22.27	$22.27	$22.27
Unfinished (per sq. ft. per year)	$12.59	$12.97	$12.97	$12.97	$12.97	$12.97	$12.97	$12.97
Jet Bridge	$10.00/use	$10.00/use	$10.00/use	$10.00/use	$10.00/use	$10.00/use	$10.00/use	$10.00/use
Annual Storage Building Rent (per sq. ft. per year)	$12.59	$12.97	$12.97	$12.97	$12.97	$12.97	$12.97	$12.97

GAA Bond Reporting

Historic Net Revenue Available to Pay Debt Service & Debt Service Coverage

	Audited 2008-2009	Audited 2009-2010	Audited 2010-2011	Audited 2011-2012	Audited 2012-2013	Audited 2013-2014
Operating Income						
Landing Fees	$484,272	$466,433	$521,056	$555,505	$571,021	$572,559
Terminal Building Rents	$1,121,782	$1,115,228	$1,297,445	$1,573,628	$1,683,869	$1,996,116
General Aviation	$429,327	$447,042	$469,563	$470,283	$474,743	$482,389
Concessions	$1,515,584	$1,552,861	$1,952,099	$2,030,407	$2,042,101	$2,268,289
Parking Lot	$1,093,973	$1,078,829	$1,413,765	$1,660,422	$1,806,959	$2,112,824
Security Income	$3,475	$5,045	$9,855	$8,775		$10,630
Restricted for Pavement Preservation	$10,000	$12,500	$10,500	$8,500	$11,500	$11,500
Other	$458,130	$535,964	$735,462	$713,121	$384,987	$370,180
Total Operating Income	$5,116,543	$5,213,902	$6,409,745	$7,020,641	$6,975,180	$7,824,487
Operating Expenses						
Office and Administration	$64,688	$78,683	$83,762	$89,504	$71,114	$74,155
Contract Services	$78,014	$49,419	$32,184	$84,316	$66,704	$70,656
Control Tower & Fire Safety	$78,378	$92,009	$86,390	$92,404	$58,614	$43,597
Insurance	$64,838	$71,500	$60,260	$110,294	$76,045	$89,256
Law Enforcement & Security	$14,113	$29,688	$40,739	$23,031	$53,062	$32,088
Repairs, Maintenance	$211,119	$249,758	$364,019	$387,063	$390,896	$452,773
Personnel - Wages, Taxes & Benefits	$1,900,034	$1,950,800	$2,185,687	$2,322,482	$2,418,829	$2,578,366
Utilities	$374,806	$335,851	$437,229	$564,160	$501,680	$550,750
Other	$51,005	$50,002	$88,720	$63,177	$85,400	$55,450
Depreciation and Amortization	$2,236,217	$2,366,149	$2,820,726	$3,155,071	$3,825,593	$3,838,984
Total Operating Expenses	$5,073,212	$5,273,859	$6,199,716	$6,891,502	$7,7547,937	$7,786,075
Net Operating Revenue						
(Operating Income/Loss)	$43,331	$(59,957)	$210,029	$129,137	$(572,757)	$38,412
Plus: Non-Operating Revenues (Expenses)	$357,407	$(69,751)	$(261,015)	$(375,885)	$(2,236,515)	$(398,728)
Plus: Depreciation and Amortization	$2,236,217	$2,366,149	$2,820,726	$3,155,071	$3,825,593	$3,838,984
Net Revenue Available for Debt Service	$2,636,955	$2,236,441	$2,769,740	$2,908,323	$1,016,321	$3,478,668
Plus: Passenger Facility Charges	$955,384	$1,281,823	$1,473,313	$1,583,069	$1,696,972	$1,766,737
Pledged Revenue Available for Debt Service	$3,592,339	$3,518,264	$4,243,053	$4,491,392	$2,713,293	$5,245,405
Annual Debt Service Requirement	n/a	n/a	**$399,352**	**$653,486**	**$653,486**	**1,143,486**
Debt Service Coverage Based on Annu-	n/a	n/a	**10.62**	**6.87**	**4.11**	**4.59**
Maximum Annual Debt Service Requirement Occurs in FY 2023	n/a	n/a	**1,144,120**	**1,144,120**	**1,143,786**	**1,143,186**
Debt Service Coverage Based on Maximum Annual Debt Service Requirement	n/a	n/a	**3.71**	**3.93**	**2.35**	**4.59**

GAA Bond Reporting

Historical Cash & Investment Balance

	Audited 2006-2007	Audited 2007-2008	Audited 2008-2009	Audited 2009-2010	Audited 2010-2011	Audited 2011-2012	Audited 2012-2013	Audited 2013-2014
Cash & Investments as of 7/1	$10,068,413	$13,895,506	$16,223,194	$13,696,411	$21,043,082	$5,319,934	$9,275,306	$14,997,504
Cash Income	$4,909,182	$5,049,305	$5,173,558	$5,251,111	$6,141,263	$7,374,859	$6,797,025	$8,310,094
Cash Expense	$(2,599,296)	$(2,867,241)	$(2,901,917)	$(2,897,399)	$(3,437,806)	$(3,621,692)	$(3,719,969)	$(3,831,858)
Interest & investment income	$641,930	$559,630	$357,407	$356,700	$419,569	$307,020	$1,394,925	$181,764
Reclamation	$18,000	$18,000	-	-	-	-	-	-
PFC & CFC Revenue	$767,227	$825,526	$839,432	$1,532,544	$1,863,651	$1,956,150	$2,266,203	$2,458,944
Grant Revenue	$1,168,412	$3,384,988	$(17,821)	$5,917,950	$6,281,230	$4,347,500	$2,675,653	$3,034,925
Capital Improvements	$(1,078,362)	$(4,642,520)	$(5,977,442)	$(18,073,137)	$(26,337,569)	$(5,194,292)	$(784,655)	$(5,086,718)
Bond Proceeds (less issuance and int. cost)				$15,258,902	$(653,486)	$(653,486)	$(1,143,486)	$(1,143,786)
Donated Capital / Payment to Others						$(560,687)	$(1,763,498)	$58,262
Cash & Investments as of 6/30	$13,895,506	$16,223,194	$13,696,411	$21,043,082	$5,319,934	$9,275,306	$14,997,504	$18,979,132

Long-Term Bond Schedule

Date	Principle	Coupon	Interest	Total P&I
2010			399,353	399,353
2011			653,486	653,486
2012			653,486	653,486
2013	490,000	3.000%	653,486	1,143,486
2014	505,000	3.000%	638,786	1,143,786
2015	520,000	3.000%	623,636	1,143,636
2016	535,000	3.000%	608,036	1,143,036
2017	550,000	3.200%	591,986	1,141,986
2018	565,000	3.400%	574,386	1,139,386
2019	585,000	3.500%	555,176	1,140,176
2020	605,000	3.625%	534,701	1,139,701
2021	630,000	3.750%	512,770	1,142,770
2022	650,000	3.850%	489,145	1,139,145
2023	680,000	3.950%	464,120	1,144,120
2024	705,000	4.000%	437,260	1,142,260
2025	730,000	4.375%	409,060	1,139,060
2026	765,000	4.375%	377,123	1,142,123
2027	800,000	4.375%	343,654	1,143,654
2028	835,000	4.375%	308,654	1,143,654
2029	870,000	4.375%	272,123	1,142,123
2030	905,000	4.700%	234,060	1,139,060
2031	950,000	4.700%	191,525	1,141,525
2032	995,000	4.700%	146,875	1,141,875
2033	1,040,000	4.700%	100,110	1,140,110
2034	1,090,000	4.700%	51,230	1,141,230
Total	16,000,000		10,824,228	26,824,228

Shown in the table is the debt service coverage figures based on historical revenue available for the debt service maximum annual debt service payments on the Series 2009 Bonds. Debt service payments for Fiscal Years 2010, 2011 and 2012 are for interest only.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,345,052	$ 11,623,822
Investments	22,787	22,755
Receivables		
Customers, net	705,040	1,193,688
Grants	981,603	2,962,659
Passenger facility charges	255,712	314,932
Prepaid expenses	199,641	119,226
	17,509,835	16,237,082
OTHER ASSETS		
Intangible asset, net	224,667	241,309
Restricted cash and cash equivalents	3,634,080	3,373,682
	3,858,747	3,614,991
PROPERTY, PLANT AND EQUIPMENT		
Land	11,403,141	9,951,856
Runways and improvements	37,701,758	35,862,078
Buildings and equipment	75,866,977	75,433,464
Construction in progress	2,511,368	341,403
	127,483,244	121,588,801
Accumulated depreciation	(42,003,086)	(38,180,744)
	85,480,158	83,408,057
Total assets	$ 106,848,740	$ 103,260,130

	2014	2013
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 1,122,894	$ 182,435
Deposits	371,635	338,279
Accrued payroll liabilities	295,675	266,117
Prepayments - land rent	36,779	39,820
Current portion of 2009 revenue bonds payable	520,000	505,000
	2,346,983	1,331,651
LONG-TERM LIABILITIES		
2009 revenue bonds payable, less current portion	14,485,000	15,005,000
Total liabilities	16,831,983	16,336,651
NET POSITION		
Net investment in capital assets	70,699,825	68,139,366
Restricted for capital projects and debt service	3,889,792	3,688,614
Unrestricted	15,427,140	15,095,499
Total net position	90,016,757	86,923,479
Total liabilities and net position	$ 106,848,740	$ 103,260,130

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Airline	$ 1,390,335	$ 1,362,666
Rental car concessions	2,416,366	2,095,095
Other terminal concessions and rents	1,030,264	923,605
Parking	2,112,824	1,819,414
General aviation	482,389	461,657
Air cargo	38,364	37,684
Other	353,945	275,059
	7,824,487	6,975,180
OPERATING EXPENSES		
Personnel	2,578,366	2,436,835
Operations and maintenance	1,069,945	1,052,253
Professional services and other	209,524	144,026
Insurance	89,256	89,230
Amortization	16,642	16,642
	3,963,733	3,738,986
Operating income before depreciation	3,860,754	3,236,194
Depreciation	3,822,342	3,808,951
Operating income (loss)	38,412	(572,757)
NONOPERATING REVENUES (EXPENSES)		
Interest income	181,796	269,044
Other nonoperating revenue	55,790	13,501
Rental car facility income	312,873	296,068
Rental car facility expenses	(213,379)	(190,719)
Payments to other agencies	(85,354)	(1,886,625)
Customs	(7,491)	(83,253)
Other	(4,177)	(1,045)
Interest expense	(638,786)	(653,486)
	(398,728)	(2,236,515)

	2014	2013
CAPITAL CONTRIBUTIONS REVENUE		
Passenger facility charges	1,766,737	1,696,972
Customer facility charges, capital	632,988	582,553
Grants	1,053,869	3,179,391
	3,453,594	5,458,916
CHANGE IN NET POSITION	3,093,278	2,649,644
Net position, beginning of year	86,923,479	84,534,287
Prior period adjustment	-	(260,452)
Net position, beginning of year as restated	86,923,479	84,273,835
NET POSITION AT END OF YEAR	$ 90,016,757	$ 86,923,479

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating cash receipts from customers	$ 8,310,094	$ 6,797,025
Cash payments to suppliers for goods and services	(1,283,050)	(1,301,140)
Cash payments to employees for services	(2,548,808)	(2,418,829)
Net cash provided by operating activities	4,478,236	3,077,056
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to other agencies	(85,354)	(1,886,625)
Other	87,826	123,127
Net cash provided (used) by noncapital financing activities	2,472	(1,763,498)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(5,086,718)	(784,655)
Grant receipts	3,034,925	2,675,653
Other receipts	55,790	-
Passenger facility charge receipts	1,825,957	1,683,650
Customer facility charge receipts	632,988	582,553
Principal payment on capital debt	(505,000)	(490,000)
Bond interest payments	(638,786)	(653,486)
Net cash provided (used) by capital and related financing activities	(680,844)	3,013,715

(continued)
See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013
(CONTINUED)

	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificate of deposit redemptions	-	1,148,636
Reclassification of investments (STIP)	-	(22,755)
Interest received	181,764	269,044
Net cash provided by investing activities	181,764	1,394,925
NET INCREASE IN CASH	3,981,628	5,722,198
Cash and cash equivalents, beginning	14,997,504	9,275,306
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 18,979,132	$ 14,997,504
STATEMENT OF NET POSITION CASH		
Unrestricted	$ 15,345,052	$ 11,623,822
Restricted	3,634,080	3,373,682
	$ 18,979,132	$ 14,997,504

(continued)
See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013
(CONTINUED)

	2014	2013
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ 38,412	$ (572,757)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	3,822,342	3,808,951
Amortization	16,642	16,642
(Increase) decrease in current assets:		
Accounts receivable	488,648	(178,235)
Prepaid expenses	(80,415)	(5,646)
Increase (decrease) in current liabilities:		
Accounts payable	132,734	129,201
Deposits	33,356	(139,186)
Prepaid land rents	(3,041)	80
Accrued payroll liabilities	29,558	18,006
Total adjustments	4,439,824	3,649,813
Net cash provided by operating activities	$ 4,478,236	$ 3,077,056

	2014	2013
Supplemental schedule of non-cash investing and financing activities		
Easements on land granted for the Interchange project	$ -	$ 934,800

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Gallatin Airport Authority (the Airport) 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 Airport's accounting policies are described below.

A. Reporting Entity

The Gallatin Airport Authority (the Airport) 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 Airport 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 Airport 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 Airport 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 Airport Board has been granted, conveyed, and transferred to the Airport. 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 Airport, 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.

B. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Airport's operating statements. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

The term basis of accounting is used to determine when a transaction or event is recognized on the Airport's financial statements. The Airport 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

The Airport's accounts are classified as one proprietary fund; that is a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Airport is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges.

Pursuant to GASB 62, Gallatin Airport Authority follows all GASB pronouncements and may apply FASB pronouncements for accounting issues not addressed by GASB literature, unless it conflicts or contradicts GASB pronouncements.

C. 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. There were no cash equivalents at June 30, 2014 and 2013.

D. Investments

The Airport 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).

E. Inventories

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

F. 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 Airport considers the majority of these receivables as collectible. A provision for uncollectible receivables in the amount of $6,200 was established for 2014 and 2013.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

The Airport's capital assets are capitalized at historical cost. Contributions of capital assets are recorded at fair market value when received. 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 Improvements	5-40 years
Equipment	3-20 years

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

H. Compensated Absences

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

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

I. Operating Revenues and Expenses

Operating revenues consist of airfield, general aviation, terminal and other revenues. Operating expenses include salaries and fringe benefits costs, aircraft rescue and fire fighting services, other operating expenses and depreciation. All other revenues and expenses, with the exception of capital grants, and passenger and customer facility charges, are classified as non-operating revenues and expenses.

Concessions and other revenue consist primarily of rental car, parking, and other ancillary services revenue. 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 revenue are recognized when earned.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Position

The Airport adopted the provisions of GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Statement 63 provides a new net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Proprietary fund net position is divided into three components:

- **Net investment in capital assets** – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

- **Restricted net position**– consists of assets that are restricted as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position** – all other net position is reported in this category.

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

K. Budget

The Airport annually adopts a non-legally binding budget.

L. Use of Estimates

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

NOTE 2. CASH AND INVESTMENTS

As of June 30, 2014 and 2013, the Airport's cash and cash equivalents were maintained as follows

	2014	2013
Cash and interest-bearing money market accounts	$ 18,978,132	$ 14,996,504
Bank balance	$ 19,120,550	$ 15,031,605
*Bank balance covered by FDIC	$ 315,321	$ 255,000

* Remainder is backed by government securities through a repurchase agreement

At June 30, 2014, the Airport's only investment was in the Montana Short-Term Investment Pool (STIP). STIP was created by the State of Montana Board of Investments to allow qualifying funds, per sections 17-6-201, 202 and 204, MCA, to participate in a diversified pool. The carrying amount of this investment as of June 30, 2014 and 2013 was $22,787 and $22,755, respectively

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2014 and 2013:

GASB 31

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

GASB 40

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – Deposit and Investment Risk Disclosures. The unaudited financial statements as of June 30, 2014 and 2013 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.

NOTE 2. CASH AND INVESTMENTS (Continued)

Security Lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year 2014 are disclosed in STIP's financial statements. An unaudited copy of the STIP fiscal year 2014 financial statements is available online at
http://www.investmentmt.com/content/STIP/Docs/2014STIPFinancial.pdf.

The following are deposit and investment risk disclosures:

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

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

NOTE 2. CASH AND INVESTMENTS (Continued)

The composition of cash and investments on June 30, 2014 and 2013, was as follows:

	2014		2013	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents				
Operating account	$ 10,635,327	$ 10,635,327	$ 9,793,202	$ 9,793,202
Capital account	4,709,725	4,709,725	1,830,620	1,830,620
	15,345,052	15,345,052	11,623,822	11,623,822
Restricted cash and cash equivalents				
Operating reserve account	1,086,658	1,086,658	1,023,629	1,023,629
Small community air service development account	153,830	153,830	181,957	181,957
Customs	104,983	104,983	62,485	62,485
Renewal and replacement reserve account	250,000	250,000	250,000	250,000
Debt service account	51,970	51,970	53,232	53,232
Debt service reserve account	1,144,120	1,144,120	1,144,120	1,144,120
PFC reserve account	842,519	842,519	658,259	658,259
	3,634,080	3,634,080	3,373,682	3,373,682
	$ 18,979,132	$ 18,979,132	$ 14,997,504	$ 14,997,504
Investments				
STIP (described above)	$ 22,787	$ 22,787	$ 22,755	$ 22,755

NOTE 3. CHANGES IN CAPITAL ASSETS

	July 1, 2013	Additions	Disposals	June 30, 2014
Capital assets not being depreciated				
Land	$ 9,951,856	$ 1,451,285	$ -	$ 11,403,141
Construction in progress	341,403	2,169,965	-	2,511,368
Total capital assets not being depreciated	10,293,259	3,621,250	-	13,914,509
Capital assets being depreciated				
Runways & improvements	35,862,078	1,839,680	-	37,701,758
Buildings & equipment	75,433,464	433,513	-	75,866,977
Total capital assets being depreciated	111,295,542	2,273,193	-	113,568,735
Less accumulated depreciation	(38,180,744)	(3,822,342)	-	(42,003,086)
Total capital assets being depreciated, net	73,114,798	(1,549,149)	-	71,565,649
Total capital assets, net	$ 83,408,057	$ 2,072,101	$ -	$ 85,480,158

	July 1, 2012	Additions	Disposals	June 30, 2013
Capital assets not being depreciated				
Land	$ 9,951,856	$ -	$ -	$ 9,951,856
Construction in progress	26,976	314,427	-	341,403
Total capital assets not being depreciated	9,978,832	314,427	-	10,293,259
Capital assets being depreciated				
Runways & improvements	35,840,723	21,355	-	35,862,078
Buildings & equipment	74,984,590	448,874	-	75,433,464
Total capital assets being depreciated	110,825,313	470,229	-	111,295,542
Less accumulated depreciation	(34,371,793)	(3,808,951)	-	(38,180,744)
Total capital assets being depreciated, net	76,453,520	(3,338,722)	-	73,114,798
Total capital assets, net	$ 86,432,352	$ (3,024,295)	$ -	$ 83,408,057

Depreciation is calculated using the straight-line method over the estimated useful life of the asset.

NOTE 4. CONSTRUCTION IN PROGRESS

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

NOTE 5. OUTSTANDING DEBT

On August 13, 2009, the Airport 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 will begin June 1, 2013, and 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 Airport, and by a pledge of the passenger facility charges of the Airport.

Long-term liability activity for the years ended June 30, 2014 and 2013, is as follows:

	Beginning Balance July 1, 2013	Additions	Reductions	Ending Balance June 30, 2014	Amounts Due Within One Year
Revenue bonds	$ 15,510,000	$ -	$ (505,000)	$ 15,005,000	$ 520,000

	Beginning Balance July 1, 2012	Additions	Reductions	Ending Balance June 30, 2013	Amounts Due Within One Year
Revenue bonds	$ 16,000,000	$ -	$ (490,000)	$ 15,510,000	$ 505,000

NOTE 5. OUTSTANDING DEBT (Continued)

The 2009 Revenue bonds were issued in denominations of $5,000 including interest payable semiannually June 1 and December 1. The stated maturity dates, debt service requirements and related interest rates are as follows:

Fiscal Year	Principal Amount	Interest Rate	Interest Amount	Total Principal and Interest
2015	$ 520,000	3.00%	$ 623,636	$ 1,143,636
2016	535,000	3.000%	608,036	1,143,036
2017	550,000	3.200%	591,986	1,141,986
2018	565,000	3.400%	574,386	1,139,386
2019	585,000	3.500%	555,176	1,140,176
2020-2024	3,270,000	3.625-4%	2,437,996	5,707,996
2025-2029	4,000,000	4.000%	1,710,613	5,710,613
2030-2034	4,980,000	4.375%	723,800	5,703,800
	$ 15,005,000		$ 7,825,629	$ 22,830,629

NOTE 6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after five years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State legislature.

Funding Policy

Contribution rates for the plan are required and determined by State law. The PERS rates for employees and employers expressed as a percentage of covered payroll, were as follows:

	Employer	Employees hired prior to July 1, 2012	Employees hired after June 30, 2012	State of Montana	Total
2014	8.07%	6.90%	7.90%	0.10%	15.07% - 16.07%
2013	7.07%	6.90%	7.90%	0.10%	14.07% - 15.07%
2012	7.07%	6.90%	7.90%	0.10%	14.07% - 15.07%

The amounts contributed to the plan during the years ended June 30, 2014 and 2013, were equal to the required contribution. The amount contributed by both the Airport and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	Total covered payroll	Employer Contributions	Employee Contributions
2014	$ 1,920,528	$ 154,986	$ 151,722
2013	$ 1,866,532	$ 131,964	$ 130,323
2012	$ 1,750,639	$ 123,770	$ 121,104

NOTE 7. 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 Airport will continue to impose the PFC until "the total net PFC revenue collected plus interest thereon equals the allowable cost of the approved projects."

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

The active PFC approved project during the years ended June 30, 2014 and 2013, 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 8. CUSTOMER FACILITY CHARGE

Customer facility charges (CFCs) are levied by the Airport pursuant to an agreement with the rental car companies serving the Airport. The CFC rate was $2.75 per contract rental day as of June 30, 2014 and 2013.

NOTE 9. PREPAID LAND RENTS

The Airport reports prepaid land rents on its statements 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 land rents is removed from the statements of net position and the revenue is recognized.

NOTE 10. NET POSITION

Net position consists of the following:

Net investment in capital assets consists of the following:

	2014	2013
OTHER ASSETS		
Intangible asset, net	$ 224,667	$ 241,309
PROPERTY, PLANT AND EQUIPMENT		
Land	11,403,141	9,951,856
Runways & improvements	37,701,758	35,862,078
Buildings & equipment	75,866,977	75,433,464
Construction in progress	2,511,368	341,403
Accumulated depreciation	(42,003,086)	(38,180,744)
	85,480,158	83,408,057
LESS: CURRENT LIABILITIES		
Current portion of bonds payable for amount invested in capital assets	520,000	505,000
LESS: LONG-TERM LIABILITIES		
Bonds payable for amount invested in capital assets, less current portion	14,485,000	15,005,000
Net invested in capital assets	$ 70,699,825	$ 68,139,366

Restricted for capital projects and debt service consists of the following:

	2014	2013
CURRENT ASSETS		
Passenger facility charges receivable	$ 255,712	$ 314,932
OTHER ASSETS		
Restricted cash	3,634,080	3,373,682
Restricted for capital projects and debt service	$ 3,889,792	$ 3,688,614

NOTE 11. PROPERTY LEASED TO OTHERS

The airport leases a portion of its property to commercial airlines, car rental companies, concessionaires, several fixed base operators who service the aviation industry, private hangar owners and the Federal Aviation Administration. These leases are non-cancelable operating leases. Minimum rentals on non-cancelable leases for the next five years ending June 30 are approximately as follows:

2015	$ 3,439,053
2016	$ 1,604,231
2017	$ 1,447,382
2018	$ 603,469
2019	$ 323,836

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, 2014.

The Airport 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 Airport totaled $3,812,614 and $3,159,641 for the years ended June 30, 2014 and 2013, respectively, and were in excess of the minimum annual guarantee.

NOTE 12. 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 airport has no coverage for such potential losses.

NOTE 13. RELATED PARTIES

Kevin Kelleher (Board Member) as a member of Sunnyside Storage Condo Association, entered into a 10-year lease with the Airport on March 1, 1996. An option for a 10-year renewal was taken. Lease revenue for 2014 and 2013 was $1,874 per year.

Karen Stelmak (Board Member) and Tom Stelmak entered into a 10-year lease with the Airport beginning September 1, 1999. An option for a 10-year renewal was taken. Lease revenue for 2014 and 2013 was $652 per year.

Ted Mathis (Board Member) rents a hangar from the Airport on a month-to-month basis. The hangar rents for $150 per month. Rental revenue for 2014 and 2013 was $1,800 per year.

There were no amounts due to or from any of these related parties at the balance sheet date.

NOTE 14. CONCENTRATIONS

The Gallatin Airport Authority receives a significant portion of its operating revenues from leasing the parking facility. The revenues from this lease accounted for approximately 27% and 26% of operating revenues for the years ended June 30, 2014 and 2013.

NOTE 15. COMMITMENTS

The Airport has entered into an agreement with Gallatin County and the City of Belgrade to establish the roles, responsibilities and commitments relative to the planning, sequencing, costs, administration, design, construction and maintenance responsibilities necessary for the planning and construction of a new Interstate 90 interchange and connector roadways to be located in the vicinity of the Gallatin Airport Authority. The Airport committed funding not-to-exceed $3,000,000, of which $1,993,158 has been expended. This is in addition to $300,000 previously expended for an environmental analysis.

NOTE 16. RECLASSIFICATIONS

Certain amounts in the fiscal year 2013 financial statements have been reclassified to conform to the fiscal year 2014 presentation.

NOTE 17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 5, 2014 the date on which these financial statements were available to be issued.

NOTE 18. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB Statement No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by other entities. The Airport participates in the Montana Retirement System that is administered by the State of Montana. Under this standard, the Airport will be required to report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on its proportionate share of the collective amounts for all the governments in the Montana Retirement System plan. The Airport will receive the amounts it will be required to report on its financial statements from the Montana Retirement System beginning in the year ending June 30, 2015.

NOTE 19. PRIOR PERIOD ADJUSTMENTS

In the year ended June 30, 2014, the Airport implemented Governmental Accounting Standards Board (GASB) Statement 65, "Items Previously Reported as Assets and Liabilities." An objective of Statement 65 is to recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. The implementation of Statement 65 resulted in the reclassification of the beginning net position of the Airport. The deferred charges for bond issuance costs of $260,452 were reclassified as expense of prior periods and resulted in the adjustment below.

Net position at June 30, 2012	$ 84,534,287
Change in reporting for deferred charges for bond issuance costs	(260,452)
Net position at June 30, 2012, restated	$ 84,273,835

SUPPLEMENTARY INFORMATION

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF IN-FORCE INSURANCE
JUNE 30, 2014

Insurer	Coverage	Amount	Expires	Annual Premium
Northwest Insurance Company	Commercial Buildings	$ 67,093,098	8/10/2014	$ 53,263
Cincinnati Insurance Company	Commercial Auto	$ 3,000,000	8/10/2014	$ 11,951
	Inland Marine	$ 497,712	8/10/2014	$ 1,994
	Boilers & Machinery (included in property)			
Cincinnati Insurance Company	Public Employees Crime Policy	$ 50,000	8/10/2014	$ 2,478
Cincinnati Insurance Company	Directors & Officers Liability and Employment Practices Liability	$ 1,000,000	8/10/2014	$ 5,982
Ace Property & Casualty Insurance Co.	Aviation Liability	$ 30,000,000	8/10/2014	$ 9,083
Darwin Select Insurance Co.	Law Enforcement Liability	$ 2,000,000	8/10/2014	$ 4,439

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
YEARS ENDED JUNE 30, 2014 AND 2013

	Cumulative to June 30, 2014	Cumulative to June 30, 2013
SOURCES:		
PFC collections	$ 17,548,056	$ 15,722,100
Interest earned	285,762	284,634
Total sources	17,833,818	16,006,734
USES:		
Debt Service 1993 Revenue Bonds		
Principal	2,379,667	2,379,667
Interest	1,040,381	1,040,381
Debt Service 2009 Revenue Bonds		
Principal	995,000	490,000
Interest	2,998,597	2,359,811
	7,413,645	6,269,859
Cost of improvements	9,577,654	9,078,616
Total uses	16,991,299	15,348,475
PFC reserve account at June 30	$ 842,519	$ 658,259

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

To the Board of Directors
Gallatin Airport Authority
Belgrade, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gallatin Airport Authority (Airport), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Gallatin Airport Authority's basic financial statements, and have issued our report thereon dated November 5, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport'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 Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport'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 Airport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Holmes & Turner

November 5, 2014

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

To the Board of Directors
Gallatin Airport Authority
Belgrade, Montana

Report on Compliance for the Major Federal Program

We have audited Gallatin Airport Authority's (Airport) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Airport's major federal program for the year ended June 30, 2014. The Airport's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport'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 Airport's compliance.

Opinion on the Major Federal Program

In our opinion, the Airport has 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, 2014.

Report on Internal Control over Compliance

Management of the Airport 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 Airport's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Holmes & Turner

November 5, 2014

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over the major program:

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

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

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

The program tested as a major program is as follows:

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

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

Gallatin Airport Authority was not a low-risk auditee.

Section II – Financial Statement Findings

Significant Deficiencies

None

Section III – Major Federal Award Findings and Questioned Costs

None

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

FEDERAL SOURCE PASS-THROUGH SOURCE **Program Name**	CFDA NUMBER	AMOUNT AWARDED	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Aviation Administration -			
Project No. 3-30-0010-38	20.106	$ 125,000	$ 26,108
Project No. 3-30-0010-41	20.106	$ 2,848,924	2,848,924
Subtotal			2,875,032
Small Community Air Service Development	20.930	$ 950,000	43,789
Total U.S. Dept. of Transportation			$ 2,918,821
U.S. DEPARTMENT OF HOMELAND SECURITY			
TSA Airport Checked Baggage Inspection Program (ARRA)	97.117	$ 3,266,866	83,409
Total Expenditures of Federal Awards			$ 3,002,230

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, 2014 has been subjected to the applicable compliance testing requirements prescribed by OMB Circular A-133.

GALLATIN AIRPORT AUTHORITY
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
YEAR ENDED JUNE 30, 2014

There were no findings, questioned costs, or significant deficiencies reported for the year ended June 30, 2013.

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

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Report on Compliance

We have audited Gallatin Airport Authority's (Airport) compliance with the types of compliance requirements described in 14 CFR Part 158 "Passenger Facility Charges" (PFC) that are applicable to the PFC program for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Passenger Facility Charges

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program for the year ended June 30, 2014.

Report on Internal Control over Compliance

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

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

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

Purpose of this Report

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

Holmes & Turner

November 5, 2014