

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**



**FLATHEAD MUNICIPAL AIRPORT  
AUTHORITY**

**FINANCIAL REPORT**

**June 30, 2014**



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**FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
KALISPELL, MONTANA**

**ORGANIZATION**

**June 30, 2014**

**Board of Commissioners**

Curt McIntyre..... Chairman  
Trevor Schaefer..... Vice-Chair  
Hank Galpin ..... Commissioner  
Todd Wirthlin..... Commissioner  
Marc Liehti..... Commissioner  
Dennis Beams ..... Commissioner  
Jim Trout..... Commissioner

**Officials**

Cindi Martin, C.M. .... Airport Director  
Robert Ratkowski..... Deputy Director  
Ed Corrigan..... County Attorney

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Flathead Municipal Airport Authority  
Kalispell, Montana

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

We have audited the accompanying financial statements of Flathead Municipal Airport Authority (the Authority) as of and for the year ended June 30, 2014, 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 respective financial position of the Authority as of June 30, 2014, 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.

### ***Report on Summarized Comparative Information***

We have previously audited the Authority's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 5–8 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 Authority's basic financial statements. The schedules of net revenues and insurance policies are required by the 2007 Airport Revenue Bonds. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 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.

These schedules 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 audits 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 information is 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 a report dated November 11, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 the Authority's internal control over financial reporting and compliance.

*Anderson Zurmuehlen & Co., P.C.*

Missoula, Montana  
November 11, 2014

**FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
KALISPELL, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a presentation of Flathead Municipal Airport Authority's (the Authority) audited financial statements for the fiscal years ended June 30, 2014 and 2013. Independent Certified Public Accountants have issued an unmodified opinion on these financial statements. This discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2014. It should be read in conjunction with the financial statements that begin on page 9.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows report information about the Authority as a whole and about its activities. These statements include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the Authority's net position, the changes in net position, and the fund's sources and uses of cash flows. The net position is the difference between assets and liabilities, which is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating.

**Financial Highlights**

As shown in the following table, current assets increased approximately \$952,000 from the prior year. This was primarily due to an increase in cash and a decrease in amounts due for Airport Improvement Program (AIP) Grants. The increase in cash of approximately \$2.18 million was largely due to receipt of AIP accounts receivable and current year AIP revenues for costs incurred in prior years. The decrease of approximately \$1.24 million for all receivables was primarily due to a decrease of \$1.22 million in AIP grants receivable. The increase in property and equipment was attributable to the completion of airfield improvements, airport access road improvements and the airport terminal remodel, primarily with AIP funds. The reconstruction of the employee and FBO parking lot was paid for with Authority funds since such projects are not eligible for reimbursement under AIP. Following depreciation charges of approximately \$3.16 million, there was a net decrease in capital assets of approximately \$2.05 million.

The Authority adopted the provisions of two GASB pronouncements for fiscal year 2013. One of these statements, GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, changes the accounting and financial reporting for the parking lot lease and requires the amounts related to this lease to be reported as deferred inflows of resources. Deferred inflows of resources totaled approximately \$1.48 million for 2014, a decrease of \$250,000 from the prior year.

Total liabilities totaled approximately \$4.51 million for 2014. Current liabilities increased approximately \$72 thousand. Long-term debt decreased from the prior year by approximately \$533 thousand paid on bond principal for the 2007 Series "A" bond.

**FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
KALISPELL, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

The financial position of the airport continues to be good. During the current fiscal year, operating revenues exceeded operating expenses before depreciation by approximately \$488 thousand, which exceeded the net revenues before depreciation estimated by management for the year ended June 30, 2014. Cash flow from operations was approximately a positive \$716 thousand, and the passenger facility charges and property tax collections exceeded the net cash used for debt service by approximately \$682 thousand. Investment/interest income was approximately \$5 thousand, and is expected to remain at low levels until interest rates increase. The airport has maintained an adequate cash reserve in the event of unforeseen interruptions in revenue streams.

The following summary table compares the current year's assets, liabilities, revenues and expenses with the previous year:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>	<u>%</u>
<b>NET POSITION</b>				
Current assets	\$ 6,076,997	\$ 5,124,414	\$ 952,583	19%
Property and equipment, net	44,425,207	46,480,887	(2,055,680)	(4)%
Other assets	<u>2,330,648</u>	<u>2,675,625</u>	<u>(344,977)</u>	(13)%
Total assets	<u>52,832,852</u>	<u>54,280,926</u>	<u>(1,448,074)</u>	(3)%
Current liabilities	900,837	829,118	71,719	9%
Noncurrent liabilities	3,611,276	4,145,341	(534,065)	(13)%
Deferred inflows of resources	<u>1,479,167</u>	<u>1,729,167</u>	<u>(250,000)</u>	(14)%
Total liabilities and deferred inflows of resources	<u>5,991,280</u>	<u>6,703,626</u>	<u>(712,346)</u>	(11)%
<b>Fund net position</b>				
Net investment in capital assets	40,874,969	42,501,717	(1,626,748)	(4)%
Restricted	541,302	540,628	674	.1%
Unrestricted	<u>5,425,301</u>	<u>4,534,955</u>	<u>890,346</u>	20%
Fund net position	<u>\$ 46,841,572</u>	<u>\$ 47,577,300</u>	<u>\$ (735,728)</u>	(2)%
<b>FINANCIAL ACTIVITY</b>				
Operating revenues	\$ 3,770,274	\$ 3,509,164	\$ 261,110	7%
Operating expenses	(3,281,681)	(2,970,591)	(311,090)	10%
Depreciation and amortization	(3,249,596)	(2,841,275)	(408,321)	14%
Interest and fees	(238,674)	(264,552)	25,878	(10)%
<b>Non-operating revenues:</b>				
Property taxes	556,824	542,509	14,315	3%
Passenger facility charges	819,991	768,621	51,370	7%
Interest and other	89,228	70,374	18,854	27%
Non-operating expenses	(73,741)	(16,727)	(57,014)	341%
Revenues from grants	<u>871,647</u>	<u>5,080,700</u>	<u>(4,209,053)</u>	(83)%
Change in fund net position	<u>\$ (735,728)</u>	<u>\$ 3,878,223</u>	<u>\$ (4,613,951)</u>	(119)%

**FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
KALISPELL, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Operating revenues for the year increased by \$261,000 from the previous fiscal year. Sources of operating revenue continue to be diversified over air carrier landing fees, terminal space rent, rental car, parking lot and terminal service and advertising concessions, parking lot revenue, land leases, ground services and fuel flowage fees.

Operating expenses increased by \$311,000 from the previous year, before depreciation and amortization.

Employee compensation and related expenses continues to be the single largest operating expense – at 44% of total operating expenses. The current year expense for employee compensation was \$1,444,146 compared to \$1,353,685 for the previous fiscal year.

The details of the federally funded projects can be found in the Schedule of Expenditures of Federal Awards in the Supplementary Information section of this report.

**Capital Assets and Long-Term Debt**

**Capital Assets**

- At the end of fiscal year 2014, the Authority has approximately \$83 million invested in a broad range of capital assets including land, airfield and other land improvements, buildings, equipment, vehicles, furniture/fixtures, intangible assets, and construction in progress. (See Note 6).
- A total of \$1,107,676 was invested in facilities and equipment during the current year. Total depreciation expense was \$3,163,356 for the current year. The net decrease to property and equipment was \$2,055,680.
- At year-end, construction in progress primarily consisted of expenditures made, or funds obligated, for improvements to the terminal.

**Debt**

- Note 7 discusses in detail the nature and terms of the Authority's long-term debt.
- At year-end the Authority had total long term debt of \$4,210,103.
- The current portion of long-term debt at year-end is \$598,827.
- Revenue Bond coverage ratio was approximately 248%, as calculated in the Supplementary Information section of this report. The current coverage ratio exceeds the minimum coverage of 130% required by the rate covenant.

The significant changes in capital assets and debt are disclosed in Notes 6 and 7 starting on page 19. Additions to fixed assets were mostly due to airport improvement programs. As shown in Note 7, there was no additional long-term debt incurred during the year. Expenditures for non-expendable, tangible real or personal property having a useful life of more than one year and an acquisition cost of \$3,000 or more are capitalized.

**FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
KALISPELL, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**OTHER ECONOMIC INFORMATION**

- There were 210,406 revenue passengers enplaning at the Airport for the current year compared to 196,413 passengers for the prior year.
- Total aircraft operations of 25,357 reflects a decrease of 5.8% from the prior year. Heavy winter weather and Instrument Meteorological Conditions dampened general aviation activity throughout the winter months.

**The Future of the Airport**

The slow improvement in the U.S. economy is contributing to passenger growth at airports nationwide and higher-than-expected airline earnings. While passenger traffic at GPIA in 2014 was up 7% over 2013, and passenger traffic nationwide is rising, airlines are continuing to compress capacity system-wide in order to reduce their operating expenses and bolster profits. This has resulted in reduced flight frequency to spoke airports, like GPIA, throughout the system.

The Authority will continue its air service enhancement efforts by working with the incumbent air carriers to expand service and evaluating opportunities to add new air carrier service to the market.

Aviation security continues to be of concern for the industry and the traveling public. Airport and passenger security requirements are expected to increase while the funding mechanisms for the new requirements have yet to be determined.

General aviation traffic at the airport was down in 2014 from the 2013 levels, as was general aviation and fuel consumption.

The growth of the airport and the infrastructure needed to support that growth requires the Authority to plan very carefully. The current approved airport master plan update, completed in 2009, has identified short-term, mid-term, and long-term capital improvement projects necessary for the airport to maintain the current facility and to meet future demand. The airport has established a conservative airport capital improvement program to meet the facility needs forecast in the master plan.

Respectfully submitted,

Cindi Martin, C.M.  
Airport Director

This financial report is designed to provide interested parties with a general overview of Glacier Park International Airport finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's Airport Director, at Glacier Park International Airport, 4170 Hwy 2 East, Kalispell, MT 59901.

FINANCIAL STATEMENTS

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
STATEMENT OF NET POSITION  
June 30, 2014  
(With Comparative Totals as of June 30, 2013)

ASSETS	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,662,163	\$ 2,480,382
Receivables		
Grants	543,576	1,765,840
Property taxes	115,314	102,559
Current portion of concession contract receivable	264,583	250,000
Other	318,047	338,821
Prepaid expenses	161,973	176,925
Prepaid insurance	<u>11,341</u>	<u>9,887</u>
Total current assets	<u>6,076,997</u>	<u>5,124,414</u>
<b>CAPITAL ASSETS</b>		
Property and equipment	83,178,643	82,070,967
Less accumulated depreciation	<u>(38,753,436)</u>	<u>(35,590,080)</u>
Capital assets, net	<u>44,425,207</u>	<u>46,480,887</u>
<b>RESTRICTED ASSETS</b>		
Cash restricted for bond reserves	<u>541,302</u>	<u>540,628</u>
Total restricted assets	<u>541,302</u>	<u>540,628</u>
<b>OTHER ASSETS</b>		
Advertising rights, net of amortization	45,000	-
Long-term portion of concession contract receivable	1,214,584	1,479,167
Master plan, net of amortization	529,762	595,762
Debt issuance costs, net of amortization	<u>-</u>	<u>60,068</u>
Total other assets	<u>1,789,346</u>	<u>2,134,997</u>
 Total assets	 <u>\$ 52,832,852</u>	 <u>\$ 54,280,926</u>

The Notes to Financial Statements are an integral part of these statements.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
STATEMENT OF NET POSITION (CONTINUED)

June 30, 2014

(With Comparative Totals as of June 30, 2013)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 140,043	\$ 75,717
Construction payables	41,105	103,507
Unearned revenue	103,674	59,573
Current portion of long-term debt	598,827	571,024
Accrued interest payable	<u>17,188</u>	<u>19,297</u>
Total current liabilities	900,837	829,118
Long-term debt, net of current portion	<u>3,611,276</u>	<u>4,145,341</u>
Total liabilities	<u>4,512,113</u>	<u>4,974,459</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Service concession arrangement - Standard Parking	<u>1,479,167</u>	<u>1,729,167</u>
<b>NET POSITION</b>		
Net investment in capital assets	40,874,969	42,501,717
Restricted for debt service	541,302	540,628
Unrestricted	<u>5,425,301</u>	<u>4,534,955</u>
Total net position	<u>46,841,572</u>	<u>47,577,300</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 52,832,852</u>	<u>\$ 54,280,926</u>

The Notes to Financial Statements are an integral part of these statements.

**FLATHEAD MUNICIPAL AIRPORT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
For the Year Ended June 30, 2014  
(With Comparative Totals for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Airline facility use fees	\$ 890,373	\$ 772,590
Landing fees	196,478	174,665
Car rental commissions	1,066,276	1,044,090
Ground and space rents	647,166	618,121
Parking lot rent	705,622	610,517
Security reimbursements	261,438	285,670
Other	<u>2,921</u>	<u>3,511</u>
Total operating revenues	<u>3,770,274</u>	<u>3,509,164</u>
Operating Expenses		
Salaries and benefits	1,444,146	1,353,685
Maintenance	613,496	422,667
Utilities	293,616	265,391
Other services	243,462	318,482
Security	346,698	299,616
Other	340,263	310,750
Depreciation	<u>3,163,356</u>	<u>2,760,035</u>
Total operating expenses	<u>6,445,037</u>	<u>5,730,626</u>
Loss from Operations	<u>(2,674,763)</u>	<u>(2,221,462)</u>
Other Revenue (Expense)		
Bond interest expense, fees, and amortization	(229,990)	(264,552)
Write off of debt issuance costs	(60,068)	-
Investment revenue	4,875	7,950
Other	<u>(24,244)</u>	<u>(35,543)</u>
Total other revenue (expense)	<u>(309,427)</u>	<u>(292,145)</u>
Contributions		
Passenger facility charges	819,991	768,621
Property taxes	556,824	542,509
Airport improvement grants	860,784	5,080,700
DOT grant revenue	<u>10,863</u>	<u>-</u>
Total contributions	<u>2,248,462</u>	<u>6,391,830</u>
Change in Net Position	(735,728)	3,878,223
Net Position		
Beginning of year	<u>47,577,300</u>	<u>43,699,077</u>
End of year	<u>\$ 46,841,572</u>	<u>\$ 47,577,300</u>

The Notes to Financial Statements are an integral part of these statements.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2014  
(With Comparative Totals for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from rents and services	\$ 3,835,149	\$ 3,433,792
Cash payments to suppliers	(1,678,471)	(1,632,048)
Cash payments to employees	<u>(1,440,408)</u>	<u>(1,347,349)</u>
Net cash flows from operating activities	<u>716,270</u>	<u>454,395</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash received from grants	2,093,911	6,140,888
Purchase of property	-	(106,162)
Airport improvements	(1,043,919)	(6,251,284)
Purchase of equipment	(63,757)	(176,664)
Bond interest and fees paid	(172,031)	(258,050)
Capitalization of master plan costs	(15,240)	-
Capitalization of advertising rights	(45,000)	-
Construction payables incurred	(62,402)	(3,612,812)
Principal payments on debt	<u>(510,000)</u>	<u>(520,000)</u>
Net cash flows from capital and related financing activities	<u>181,562</u>	<u>(4,784,084)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Passenger facility charges	819,991	768,621
Property tax collections	<u>544,069</u>	<u>542,166</u>
Net cash flows from non-capital financing activities	<u>1,364,060</u>	<u>1,310,787</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Other expense	(24,244)	(35,543)
Interest and investment revenue	<u>4,875</u>	<u>7,950</u>
Net cash flows from investing activities	<u>(19,369)</u>	<u>(27,593)</u>
Net change in cash and cash equivalents	2,242,523	(3,046,495)
Cash and Cash Equivalents		
Beginning of year	<u>3,021,010</u>	<u>6,067,505</u>
End of year	<u>\$ 5,263,533</u>	<u>\$ 3,021,010</u>

The Notes to Financial Statements are an integral part of these statements.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
STATEMENT OF CASH FLOWS (CONTINUED)  
For the Year Ended June 30, 2014  
(With Comparative Totals for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
CASH AND CASH EQUIVALENTS ARE PRESENTED IN THE ACCOMPANYING STATEMENT OF NET POSITION UNDER THE FOLLOWING CAPTIONS		
Unrestricted cash	\$ 4,662,163	\$ 2,480,382
Cash restricted for bond reserves	<u>541,302</u>	<u>540,628</u>
Total cash and cash equivalents	<u>\$ 5,203,465</u>	<u>\$ 3,021,010</u>

RECONCILIATION OF LOSS FROM OPERATIONS TO  
NET CASH FLOWS FROM OPERATING ACTIVITIES

Loss from operations	\$ (2,674,763)	\$ (2,221,462)
Adjustments to reconcile to cash flows:		
Depreciation	3,163,356	2,760,035
Amortization	81,240	81,240
Change in prepaid expenses	13,498	(21,745)
Change in other receivables	270,774	169,894
Change in accounts payable	64,326	(74,637)
Change in compensated absences	3,738	6,336
Change in deferred inflows of resources	(250,000)	(250,000)
Change in unearned revenue	<u>44,101</u>	<u>4,734</u>
Net cash flows from operating activities	<u>\$ 716,270</u>	<u>\$ 454,395</u>

The Notes to Financial Statements are an integral part of these statements.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Flathead Municipal Airport Authority (the Authority) was created June 13, 1975, by Resolution of the Board of County Commissioners of Flathead County. The Authority is a public body, corporate and politic as provided under the Airport Authorities Act of the Laws of Montana. The County Commissioners appoint a seven-commissioner board that directs the operation of the Authority.

The County Commissioners appoint the Authority's governing board, but cannot impose their will on the Authority, nor does the County derive any benefit or burden from the Authority. Therefore, the Authority is not considered to be a component unit of the County.

**Nature of Operations**

The Authority operates the Glacier Park International Airport, a commercial facility with four airlines and full services for all aircraft types. The Authority also owns and operates airports in Whitefish and Ferndale, Montana.

The Authority receives significant capital grant contributions from the federal government. The loss of these grants or revenue could have a significant impact on operations.

**Basis of Accounting**

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, and follow proprietary fund reporting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The Authority's financial statements include a Statement of Net Position, a Statement of Activities, and a Statement of Cash Flows. The Authority's financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Activities presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues are those revenues that are generated from the primary operations of the Authority. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operation of the fund. All other expenses are reported as non-operating expenses.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New Accounting Pronouncements**

The Authority has adopted the provision of the following GASB pronouncement for fiscal year 2014:

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, is effective for periods beginning after December 15, 2012. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities as deferred outflows or deferred inflows, respectively.

**Classification of Net Position**

***Invested in Capital Assets, Net of Related Debt***

This is the Authority's investment in capital assets, net of depreciation and related bonds and notes payable.

***Restricted Net Position***

These are resources that are expendable only for specified purposes. The Authority's restricted fund net position amounts are primarily to be used for debt service payments.

***Unrestricted Net Position***

These are resources over which the governing board has discretionary control.

**Cash and Cash Equivalents**

Management considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, including restricted cash related to passenger facility charges and accounts restricted for debt service. Cash equivalents include savings accounts and demand deposits.

**Investments**

The Authority is authorized by statute to invest in time or savings deposits with banks, savings and loan associations or credit unions, obligations of United States Government listed in the statute, the state of Montana Short-Term Investment Pool (STIP), and repurchase agreements.

**Property Taxes**

Most property taxes are levied in August of each fiscal year based on assessments as of the prior January 1. Real property taxes are billed in October and are payable 50% on November 30 and 50% on May 31. Property taxes are maintained and collected by the County Treasurer. State law permits the Authority to levy up to 2.0 mills. For the year ended June 30, 2014, the Authority assessed 2.0 mills. The taxable value of property in the Authority's taxing jurisdiction was \$251,311,899 for the November 2013 property tax billing.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property Taxes (Continued)**

Property taxes receivable at June 30 consist primarily of delinquent property taxes from prior year levies. The Authority does not record an allowance for uncollectible taxes because it is considered to be immaterial.

**Prepaid Insurance**

Expenditures for fire, liability and other insurance are amortized over the period of the policy. Unamortized premiums are recorded as prepaid insurance.

**Prepaid Supplies**

Prepaid supplies are accounted for using the consumption method for enterprise funds. That is, supply purchases are considered an asset until the period in which they are actually consumed.

**Capital Assets**

Property and equipment is stated at cost and depreciated on the straight-line method over estimated useful lives. Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$3,000 are recorded as additions to fixed assets. Repair and maintenance costs are not capitalized. Construction work in process is not depreciated until placed in service. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Runways	5–20 years
Lighting Systems	20 years
Land Improvements	10–40 years
Buildings	5–50 years
Equipment and Vehicles	5–10 years

**Compensated Absences**

Sick leave is accumulated for employees at the rate of 12 working days for each year of service. Vacation leave is earned at 15 to 24 days a year depending on the number of years employed. Part-time employees are entitled to pro-rated benefits upon fulfillment of the qualifying period of time. All employees are eligible for compensation at one-fourth of the accumulated sick leave amount upon resignation or retirement. Vacation leave, within certain limitations, may be payable on termination.

**Operating Revenues and Expenses**

The Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with its primary ongoing operations. The principal operating revenues are charges for use of facilities and leases of property. Unearned revenue relates primarily to amounts received in advance under lease agreements. Operating expenses include the cost of providing those services and depreciation of capital assets.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Grant Revenue**

Grant revenue is recognized when earned, which is generally when related expenses are recorded. Grants receivable consists primarily of grant revenue due to the Authority. Generally, the Authority applies cost reimbursement grant funds first to finance projects, with remaining costs paid with unrestricted funds.

**Construction in Progress**

Costs incurred during construction projects and equipment acquisitions are recorded in a Construction in Progress account until the project is finished or acquisition completed. After completion, the cost is capitalized and depreciated.

**Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

**Prior Period Comparative Amounts**

The basic financial statements include certain prior year comparative amounts but the notes to the financial statements do not contain the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2013, from which the comparative information was derived.

**NOTE 2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are held in local banks in demand deposits and savings accounts. These accounts and balances at June 30, 2014, are as follows:

Demand accounts	\$ 361,400
Savings accounts	<u>4,842,065</u>
Total	<u>\$ 5,203,465</u>

These amounts are reported on the statement of net position as follows:

Unrestricted cash and cash equivalents	\$ 4,662,163
Restricted for bond reserves	<u>541,302</u>
Total	<u>\$ 5,203,465</u>

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)**

**Concentration of Credit Risk**

From time to time, certain bank accounts that are subject to limited FDIC coverage exceed their insured limits. These accounts are covered by \$5,535,000 of collateral (at par value) held in the bank's name.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned or the Authority will not be able to recover the collateral securities in the possession of the outside party. The Authority minimizes custodial credit risk by restrictions set forth in Authority policy and state law.

**Credit Risk**

As a Montana local government, the Authority is restricted to the deposits and investments set forth in Sections 7-6-602 and 206, of the Montana Code Annotated (MCA). Cash and cash equivalents may include cash and cash items, money market, time savings and fiscal agent deposits; investment in STIP; repurchase agreements and direct obligations of the United States Government.

**Restricted Cash**

The bond indenture agreement for the Series 2007 Airport Revenue Bond requires reserve funds. These are shown as restricted amounts on the financial statements because the use is generally limited to payment of bond principal and interest. The reserve fund is comprised of \$541,302 held in savings and checking accounts.

**NOTE 3. PROPERTY TAXES RECEIVABLE**

At June 30, 2014, the Authority had \$115,314 of property taxes receivable from Flathead County, of which \$69,526 had been collected but not remitted by the County as of June 30, 2014.

**NOTE 4. OTHER RECEIVABLES**

Balances due for charges for landing fees, rents, commissions, and other fees due the Authority are recorded as other receivables. All are considered collectible.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 5. GRANTS RECEIVABLE**

The Authority had \$543,576 due from the federal government for work completed on construction projects, equipment purchased, and other costs incurred as of June 30, 2014, for various Airport Improvement Project grants and air service grants.

**NOTE 6. CAPITAL ASSETS**

Changes in capital assets and related depreciation were as follows:

	Balance July 1, 2013	Additions	Deletions	Other Adjustments	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 6,372,780	\$ -	\$ -	\$ -	\$ 6,372,780
Construction in progress	2,396,161	645,614	(2,372,176)	-	669,599
Total capital assets not being depreciated	<u>8,768,941</u>	<u>645,614</u>	<u>(2,372,176)</u>	-	<u>7,042,379</u>
Capital assets being depreciated:					
Land improvements	49,314,601	-	-	-	49,314,601
Buildings	18,222,978	2,753,301	-	-	20,976,279
Equipment	5,441,884	63,757	-	-	5,505,641
Furniture	322,563	17,180	-	-	339,743
Total capital assets being depreciated	<u>73,302,026</u>	<u>2,834,238</u>	<u>-</u>	<u>-</u>	<u>76,136,264</u>
ACCUMULATED DEPRECIATION					
Land improvements	(23,571,198)	(2,278,543)	-	-	(25,849,741)
Buildings	(7,917,058)	(622,421)	-	-	(8,539,479)
Equipment	(3,814,056)	(249,149)	-	-	(4,063,205)
Furniture	(287,768)	(13,243)	-	-	(301,011)
Total	<u>(35,590,080)</u>	<u>(3,163,356)</u>	<u>-</u>	<u>-</u>	<u>(38,753,436)</u>
Capital Assets - Net	<u>\$ 46,480,887</u>	<u>\$ 316,496</u>	<u>\$ (2,372,176)</u>	<u>\$ -</u>	44,425,207
Master plan, net of amortization					529,762
Advertising rights, net of amortization					45,000
Less related debt					<u>(4,125,000)</u>
Net investment in capital assets					<u>\$ 40,874,969</u>

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 7. LONG-TERM DEBT**

Changes in long-term debt were as follows:

	Balance June 30, 2013	Payments	Other Changes	Balance June 30, 2014	Amount Due in One Year
2007 revenue bond	\$ 4,635,000	\$ (510,000)	\$ -	\$ 4,125,000	\$ 535,000
Compensated absences	81,365	-	3,738	85,103	63,827
Total	<u>\$ 4,716,365</u>	<u>\$ (510,000)</u>	<u>\$ 3,738</u>	<u>\$ 4,210,103</u>	<u>\$ 598,827</u>

On April 4, 2007, the Authority issued \$7,295,000 of revenue bonds with coupon rates ranging from 5 percent to 6.7 percent (an average interest rate of 5.132 percent) to advance refund \$6,225,000 of outstanding 1997 series bonds with an average interest rate of 6.295 percent, and a note for \$1,629,037 with an average interest rate of 5.444 percent. The net proceeds of \$7,195,275 (after payment of \$99,724 in net underwriting fees, insurance, and other issuance costs) plus an additional \$1,543,543 of 1997 series sinking fund and reserve fund monies were used to purchase U.S. government securities, and pay off the 2004 note plus interest. The government securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 series bonds. As a result, the 1997 series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,677. The Authority completed the advance refunding to reduce its total annual debt service payments by \$62,122 and to obtain an economic gain of \$395,643.

The 2007 bonds impose certain requirements on the Authority's operations including, among other requirements that the Authority:

1. Use segregated cash accounts with restrictions on their use.
2. Account for the Authority in accordance with generally accepted accounting principles.
3. Maintain net revenues (as defined) and passenger facility charges of not less than 130% of the principal and interest amount due in the fiscal year.
4. Maintain a debt service reserve account in the amount of \$540,500.
5. Carry property and liability insurance and surety bonds.

The Authority was in compliance with the above requirements.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

In accordance with GASB 65, prior unamortized debt issuance costs of \$60,068 were written off during 2014. GASB 65 requires restatement of prior years if the amount is material; however, in the opinion of management, the write-off was not material.

Amounts for Future debt service requirements, including interest, on the 2007 airport revenue bonds are as follows:

Year Ended June 30,	Principal	Interest	Total Payments
2015	\$ 535,000	\$ 206,250	\$ 741,250
2016	560,000	179,500	739,500
2017	590,000	151,500	741,500
2018	620,000	122,000	742,000
2019	650,000	91,000	741,000
2020	1,170,000	58,500	1,228,500
Total	<u>\$ 4,125,000</u>	<u>\$ 808,750</u>	<u>\$ 4,933,750</u>

**NOTE 8. PASSENGER FACILITY CHARGES**

As authorized by federal law, the Federal Aviation Administration (FAA) has approved the imposition of a passenger facility charge (PFC) by the Authority. During the current year, the fee was \$4.50 per passenger. This fee was approved in 1997, and amended in 2004 and 2005. The Authority is allowed to collect \$11,831,052 of passenger facility charges under the current agreement, of which \$10,183,369 has already been collected. The regulations require the Authority to separately account for the revenue, interest earned, and expenditures of PFC funds. The Authority maintains a separate bank account for this purpose.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

**NOTE 9. RETIREMENT PLAN**

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

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. Actuarial 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. A guaranteed annual benefit adjustment (GABA) of 1.5% is provided each January for benefit recipients if they have been receiving a benefit for at least 36 months. 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.

Contributions by plan members and the Authority are mandatory and are determined by state law. Contribution rates, expressed as a percentage of covered payroll, for each of the three fiscal years were as follows:

<u>Year Ended June 30,</u>	<u>Employee</u>	<u>Authority</u>	<u>State</u>
2014	7.90%	8.070%	0.100%
2013	7.90%	7.070%	0.100%
2012	6.90% - 7.90% (1)	7.070%	0.100%

(1) 6.9% for members hired prior to July 1, 2011  
7.9% for members hired on or after July 1, 2011

The Authority's contributions to the plan, which equals the required amounts, for each of the three fiscal years, were as follows:

<u>Year Ended June 30,</u>	<u>Authority</u>	<u>State</u>
2014	\$ 80,716	\$ 1,000
2013	67,488	955
2012	67,116	949

The plan issues publicly available reports that include financial statements and required supplemental information. These reports may be obtained from: The Montana Public Employees' Retirement System, P.O. Box 200131, Helena, MT 59620-0131, Telephone (406) 444-3154.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

**NOTE 10. RELATED PARTIES**

As described in Note 1, the Authority's Board of Directors is appointed by the Board of County Commissioners of Flathead County. The County provides funds to the Authority from a tax levy under Montana Codes Annotated Section 7-16-101.

**NOTE 11. LEASES**

The Authority leases space in the terminal building and other ground space to airlines, fixed base operators and others. These leases specify the monthly rent and the term of the lease. The Authority also has concession agreements with several automobile rental companies. These provide for monthly rent of space on the airport grounds and for the commissions on rentals at the airport. These leases, landing fees and commissions provide a substantial portion of the Authority's revenue. Minimum lease commitments from major tenants for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Minimum Lease Commitment</u>
2015	\$ 835,846
2016	806,225
2017	678,082
2018	659,487
2019	<u>665,468</u>
	<u>\$ 3,645,108</u>

Management negotiated new use agreements with all carriers which were effective in fiscal year 2014. Changes to the Authority's rates and charges were evaluated and finalized during 2014.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 12. RISK MANAGEMENT**

The Authority faces a number of risks including (a) loss or damage to property, (b) general liability, (c) workers' compensation, (d) employee torts, (e) professional liability, i.e., errors and omissions, and (f) employee medical insurance. Settled claims did not exceed the commercial coverage for the fiscal years ended June 30, 2014, 2013, or 2012. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No liability accrual was required at June 30, 2014 and 2013. There were no significant changes in how the Authority covered its risks in 2014.

The Authority participates in the Montana Association of Counties Joint Powers Insurance Authority Pool. Commercial insurance policies are purchased for loss or damage to property, general liability, employee torts, and directors' and officers' liability.

Workers' compensation insurance is purchased through the Montana State Fund.

Employee medical insurance is provided through the Authority's participation in the Flathead County self-insured medical plan. The Authority is subject to the provisions of GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plan." GASB 45 requires employers to calculate the actuarial liability for future retiree benefits and the annual required contribution for retirees. The Authority has reviewed the potential impact of this standard and has determined that any adjustment to the accompanying financial statements is not material.

**NOTE 13. COMMITMENTS AND CONTINGENCIES**

At June 30, 2014, the Authority was committed to expending approximately \$1,246,000 on airport improvements, substantially all of which will be funded with Airport Improvement Program grants.

**NOTE 14. SERVICE CONCESSION ARRANGEMENT**

The Authority has entered into a concession agreement expiring November 30, 2019, with Standard Parking Corporation (Standard) to operate the Authority's public parking facility located in and about the main terminal at the Airport. The Authority entered into the arrangement as a means to provide parking facilities to members of the public visiting the Airport in a more efficient, cost-effective manner.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 14. SERVICE CONCESSION ARRANGEMENT (CONTINUED)**

The terms of the agreement include:

- Standard shall use the facility solely to operate a public parking facility at the Airport for incoming/outgoing passengers using the Airport during the term of the agreement.
- The Authority retains the right to further develop, modify, and improve the area currently used for public parking at the Airport during the agreement term.
- Standard is responsible for parking lot maintenance while the Authority is responsible for structural modifications and substantial repairs.
- The Authority and Standard have mutually agreed to the parking rates charged for use of the facility during the term of the agreement and rate changes shall go into effect only when approved by the Authority.

Under the terms of the agreement, Standard is required to pay the Airport Authority as follows:

Fiscal Year Ended	Minimum Annual Guarantee	Percentage of Annual Gross Receipts
		(calculated for the contract years ended June 30)
June 30, 2015	\$264,583	<b>Years 1-5:</b> 0% of Standard's annual gross receipts >\$0 but <\$200,000
June 30, 2016	\$275,000	55% of Standard's annual gross receipts >\$200,000 but <\$300,000 65% of Standard's annual gross receipts >\$300,000 but <\$400,000
June 30, 2017	\$275,000	75% of Standard's annual gross receipts >\$400,000 but <\$500,000 92% of Standard's annual gross receipts >\$500,000
June 30, 2018	\$275,000	<b>Years 6-10:</b> 0% of Standard's annual gross receipts >\$0 but <\$225,000
June 30, 2019	\$275,000	55% of Standard's annual gross receipts >\$225,000 but <\$300,000 65% of Standard's annual gross receipts >\$300,000 but <\$400,000
June 30, 2020	\$114,584	75% of Standard's annual gross receipts >\$400,000 but <\$500,000 92% of Standard's annual gross receipts >\$500,000

The facility is reported by the Authority as a capital asset and is being depreciated over its useful life. For the amount to be received under the agreement, the Authority has recorded a receivable and deferred inflow of resources in the amount of \$1,479,167 for the fiscal year June 30, 2014. The deferred inflow of resources is amortized to revenue over the term of the agreement.

SUPPLEMENTARY INFORMATION

**FLATHEAD MUNICIPAL AIRPORT AUTHORITY**  
**SCHEDULE OF NET REVENUES AS REQUIRED**  
**BY THE 2007 AIRPORT REVENUE BONDS**  
 For the Year Ended June 30, 2014

**Net Revenues Required:**

Maximum annual principal and interest due on June 1, 2014		\$ 741,750
Requirement		<u>130%</u>
Net revenue required		<u>964,275</u>

**2014 Net Revenues:**

Gross revenues:		
Operating revenues	\$ 3,770,274	
Passenger facility charges	819,991	
Property taxes	556,824	
Other, net	<u>(24,244)</u>	5,122,845
Operating expenses	6,445,037	
Less depreciation	<u>(3,163,356)</u>	<u>3,281,681</u>
Actual net revenues		<u>1,841,164</u>

<b>Excess of Actual Net Revenues Over Required Net Revenues</b>		<u><u>\$ 876,889</u></u>
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**FLATHEAD MUNICIPAL AIRPORT AUTHORITY**  
**SCHEDULE OF INSURANCE POLICIES AS REQUIRED**  
**BY THE 2007 AIRPORT REVENUE BONDS**  
**For the Year Ended June 30, 2014**

The following insurance policies and fidelity bonds were in force at the end of the year:

<b>COMPANY</b>	<b>PERIOD</b>	<b>POLICY LIMITS</b>	
Montana Association of Counties – Joint Powers Insurance Association Pool	7/1/13–7/1/14		
Buildings .....		\$ 24,611,951	
Personal Property .....		\$ 3,000,000	
Employee Dishonesty .....		\$ 500,000	
Auto Values .....		\$ 1,546,164	
Business Auto .....		\$ 750,000	per claimant
		\$ 1,500,000	per accident
Contractors Equipment Protection .....		\$ 2,472,720	
Public Officials Liability Coverage .....		\$ 750,000	per claimant
		\$ 1,500,000	per incident
 Old Republic Insurance Company	 5/1/13–5/1/14		
Airport Owners and Operators General Liability Policy .....		\$ 10,000,000	per occurrence

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2014

<u>PROGRAM DESCRIPTION</u>	<u>CFDA NO.</u>	<u>CONTRACT NO.</u>	<u>FEDERAL EXPENDITURES</u>
<b>U.S. Department of Transportation</b>			
Administered by the Federal Aviation Administration			
Airport Improvement Program	20.106	3-30-0046-46	\$ 26,553
		3-30-0046-47	285,679
		3-30-0046-48	<u>533,249</u>
			<u>845,481</u>
Small Community Air Service Development Grant	20.930		<u>10,863</u>
Total U.S. Department of Transportation			<u>856,344</u>
Total Federal Expenditures			<u>\$ 856,344</u>

See Note to Schedule of Expenditures of Federal Awards.

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014

**NOTE 1. BASIS OF PRESENTATION**

The accounting policies used in preparing the schedule of expenditures of federal awards are the same as those used in the preparation of the basic financial statements as described in Note 1 to the financial statements except that reported federal expenditures include capital asset purchases which are capitalized and not reported as expenses in the financial statements.

The information included in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements. Reported federal expenditures include only expenditures paid with federal funds.

**FLATHEAD MUNICIPAL AIRPORT AUTHORITY**  
**SCHEDULE OF PASSENGER FACILITY CHARGES (PFC)**  
**COLLECTED AND EXPENDED**  
**For the Year Ended June 30, 2014**

**Application Number 97-02-C-01-FCA**

<b>QUARTER ENDING</b>	<b>PFC REVENUE EARNED</b>	<b>INTEREST EARNED</b>	<b>EXPENDITURES ON PFC PROJECTS</b>
September 2013	\$ 231,101	\$ 143	\$ -
December 2013	176,661	176	115,875
March 2014	168,546	202	-
June 2014	<u>243,012</u>	<u>150</u>	<u>625,875</u>
Total	<u>\$ 819,320</u>	<u>\$ 671</u>	<u>\$ 741,750</u>

**Terminal Expansion Bond Payments including principal and interest:**

<b><u>QUARTER ENDING</u></b>	
December 2013	\$ 115,875
June 2014	<u>625,875</u>
Total	<u>\$ 741,750</u>
Total PFC collections authorized	\$ 11,831,052
Cumulative PFC collections	<u>(10,183,369)</u>
Remaining PFC collections authorized	<u>\$ 1,647,683</u>

SINGLE AUDIT 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*

Board of Commissioners  
Flathead Municipal Airport Authority  
Kalispell, 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 Flathead Municipal Airport Authority (the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 11, 2014.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Anderson Zurmuehlen & Co., P.C.*

Missoula, Montana  
November 11, 2014

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

Board of Commissioners  
Flathead Municipal Airport Authority  
Kalispell, Montana

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

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

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

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

### **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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

*Anderson Zurmuehlen & Co., P.C.*

Missoula, Montana  
November 11, 2014

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2014

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statement noted?	No

**Federal Awards**

Internal control over the major program:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of the major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Federal Aviation Administration – Airport Improvement Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

FLATHEAD MUNICIPAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
For the Year Ended June 30, 2014

**Section II – Financial Statement Findings**

None reported.

**Section III – Federal Awards Findings and Questioned Costs**

None reported.

**Summary Schedule of Prior Audit Findings**

None noted.

**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  
Flathead Municipal Airport Authority  
Kalispell, Montana

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

We have audited Flathead Municipal 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, 2014.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the PFC 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 *Government 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 PFC 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 PFC program. However, our audit does not provide a legal determination of the Authority's compliance.

**Opinion on the Passenger Facility Charge 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 the PFC program for the year ended June 30, 2014.



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### **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 PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 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 *Passenger Facility Charge Audit Guide for Public Agencies*. Accordingly, this report is not suitable for any other purpose.

*Anderson Zurmuehlen & Co., P.C.*

Missoula, Montana  
November 11, 2014