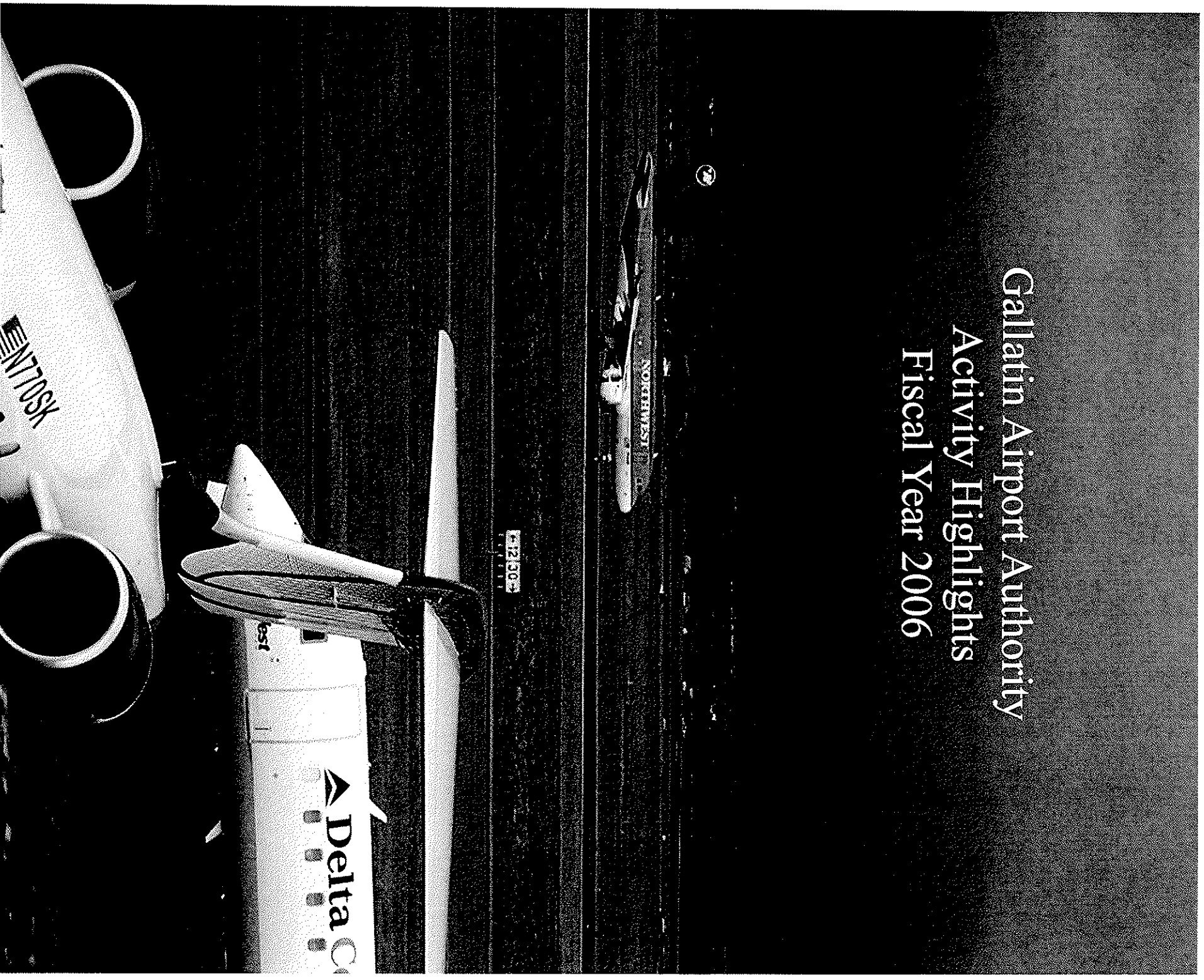


Gallatin Airport Authority  
Activity Highlights  
Fiscal Year 2006



**Table of Contents**

Introduction.....	Page 1
Activity Highlights	
Gallatin Airport Authority—Board, Staff, Mission .....	Page 2
FY 2006 in Review—Airport Director .....	Page 3
Airline Service .....	Page 4
Airline Statistics .....	Pages 5-6
Top 10 Airline Markets to and from Gallatin Field .....	Page 7
Airline Terminal Concessionaire—Revenues and Passengers .....	Page 8
Airport Revenues—Airline Terminal Area.....	Page 9
Air Traffic .....	Page 10
Air Cargo & Express .....	Page 11
Commercial General Aviation.....	Page 12
Non-commercial General Aviation.....	Page 13
Airport Revenues—General Aviation .....	Page 14
Financial Highlights	
Operating Income.....	Page 15
Operating Expenses.....	Page 15
Non-operating Revenue and Expenses.....	Page 16
Capital Contributions.....	Page 16
Changes in Net Assets.....	Page 16
Statement of Net Assets.....	Page 17
Cash Management.....	Page 17
Highlights of the FY 2006 Budget.....	Page 18
Capital Improvements.....	Page 18
Debt Management and Capital Financing.....	Page 19
Contacting the Gallatin Airport Authority's Financial Management.....	Page 19

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, 2006. The discussion and analysis should be read in conjunction with the entire 2006 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 Gallatin Field that affect the financial performance of the Gallatin Airport Authority
- Financial Highlights – Detail of the FY 2006 Gallatin Airport Authority income and expenditures
- Changes in Net Assets – Detail of activities that contributed to the changes in net assets during FY 2006
- Statement of Net Assets – Detail of Assets, Liabilities and Net Assets (Equity)
- Highlights of the FY 2006 Budget – Detail of the FY 2006 budget compared to actual FY 2006 income and expenditures
- Cash Management – Detail of major sources and uses of cash
- Capital Improvements – Detail of FY 2006 Capital Improvements by the Gallatin Airport Authority
- Debt Management and Capital Financing – Detail of long-term debt and Capital Improvement funding by the Gallatin Airport Authority
- Contacting the Gallatin Airport Authority's Financial Management

Airport Board



John McKenna, Jr.  
Chair



Greg Metzger  
Vice-Chair



Richard R. Roehm  
Secretary



Steve Williamson  
Member



Deborah Dietz  
Member

**MISSION:**

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

Airport Director— Ted Mathis, A.A.E.

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

Airport Office

Administrative Assistant—Cherie Ferguson

Office Assistant—Melissa Whittaker

Operations & Maintenance

Maintenance Supervisor/ARFF— Tim Linn

Operations, Safety and Security Supervisor/ARFF— Paul Schneider

Maintenance Technician/ARFF—Pat Teague

Maintenance Technician/ARFF—Joel Dykstra

Maintenance Technician/ARFF—Wes Mork

Maintenance Technician/ARFF— Lee Huyser

Maintenance Technician/ARFF— Dave Morrow

Maintenance Technician/ARFF—Larry Thompson

Maintenance Technician/ARFF—Chuck Rasnick

Maintenance Technician/ARFF—Jay Blair

Groundskeeper—Derek Fleming

Custodial

Custodial—John Story

Custodial—Rod Freese

Custodial—Barbara Spatig

Custodial—Shirley Andreas

Custodial—Vicki Anderson

Custodial—Josh Norris

Airport Staff

*Ted Mathis, A.A.E.  
Airport Director*

This fiscal year brought many challenges and opportunities at Gallatin Field. For the first time in over a decade, we saw a decline in airline service and passenger boardings. At the same time, the number of aircraft landings and takeoffs, particularly in the corporate jet and flight training sectors, grew at a rapid pace.

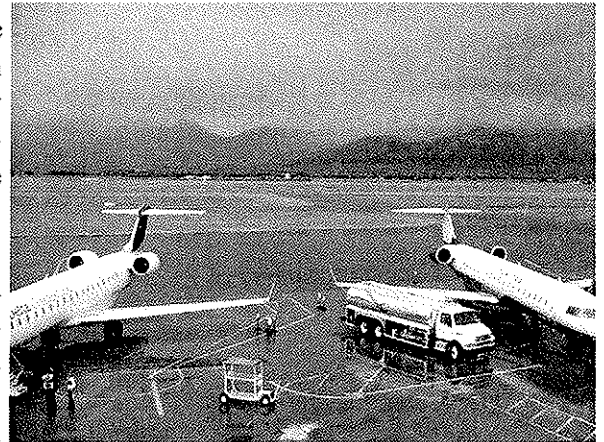
As the airlines struggled with ongoing financial problems and soaring fuel prices, they adjusted flight schedules and aircraft deployment. Last fall, Delta Air Lines replaced their daily Boeing 737 service with regional jets, while Northwest, Horizon Air and United Express simultaneously reduced the number of flights or available seats in our market. These reductions coupled with higher ticket prices caused decreased passenger boardings in the second half of the fiscal year. Through local efforts, much of this service was restored before the busy ski season. In addition, Delta added twice weekly non-stop service to Atlanta, United Express inaugurated daily non-stop service to Chicago and Big Sky Airlines returned to our market with service to Boise, Billings, Missoula and Portland.

Several construction projects were undertaken during the year. FedEx Express completed their new twenty-thousand square foot sort and office complex and began operations there in February. The Airport Authority completed a new fire station in conjunction with Phase I of our old terminal remodeling project and a new fire truck was delivered as part of this project. The main floor of the old terminal now houses our fire department office, interactive training area and conference room. The Gallatin County Sheriff's Department has a satellite office in the building and the Transportation Security Administration leases the remaining office space for their local headquarters. Also, the Federal Aviation Administration began construction of a new radar facility on the north side of the airport. When this radar is commissioned in March of 2007, it will provide a significant enhancement to air safety and air traffic capacity.

The Gallatin Airport Authority Board continued their commitment to protecting the airport from encroachment this year by purchasing two additional parcels of land to the north and east of the airport. They also purchased the development rights on 320 acres to the northwest of the field thus assuring that this land will remain open and free from housing development. In looking to the future, the Board authorized an airport master plan update to assist us in determining future facility needs and funding requirements.

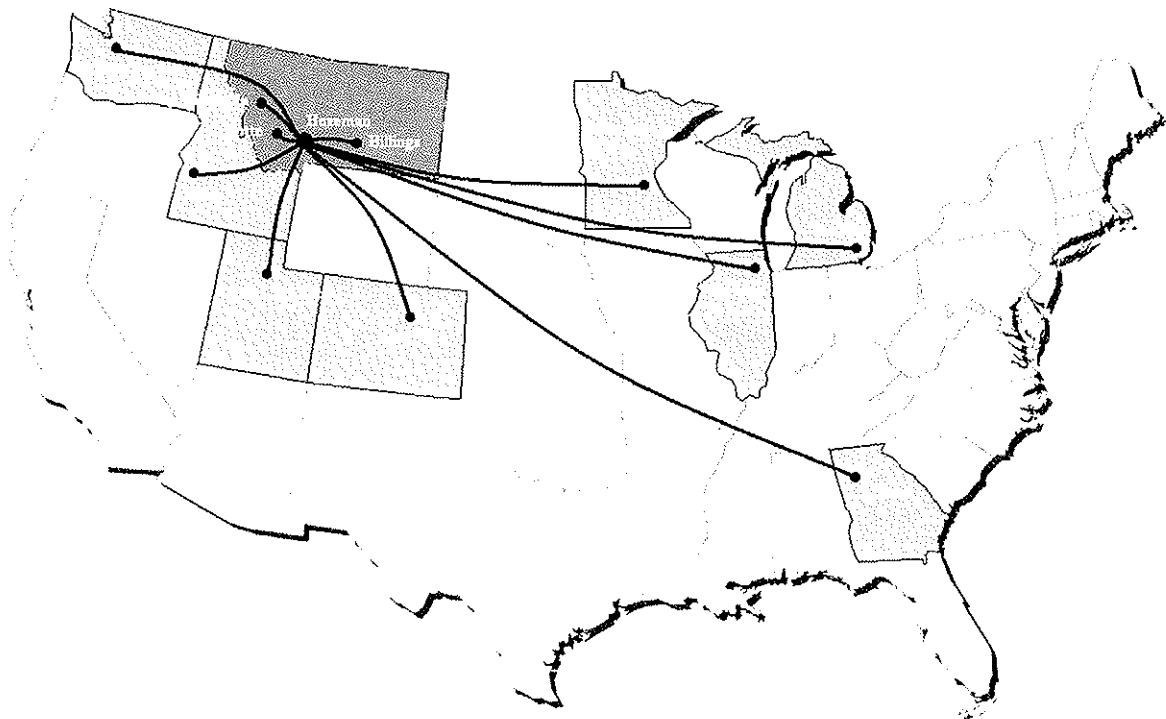
We continue to strive to provide a first class aviation facility that is adequate to meet the needs of our growing service area. In order to do that, we need your input. We appreciate any suggestions you, the flying public, might have to help us serve you better.

There is little doubt that the last five years have been turbulent in the airline industry. Success for an airport during this turmoil is often measured in how the disruption is managed and how quickly the market can recover. While Gallatin Field was fortunate to have very little impact in air service between 2001 and the first half of 2005, the second half of 2005 illustrated how quickly things can change. With United in bankruptcy and the near simultaneous bankruptcies of our two largest airline brands, Delta and Northwest, airline service was quickly impacted at Gallatin Field. By December 2005, Northwest and Delta had both slashed capacity throughout their systems.



Initial flight schedules for the winter at Gallatin Field indicated a 30% decline in seats. Quick action by airport management, local community leaders and a pervasive strong market resulted in re-instatement of approximately half of the lost seats by the time schedules were finalized. The quick action minimized impact but we expect to continue to see available seats impact enplanements through September 2006. While fiscal year 2006 enplanements were up 1.6%, calendar year 2006 enplanements are expected to decline for the first time in 12 years by approximately 5%. Change, while often drastic, is not always negative. While one airline may reduce service, others see this reduction as an opportunity. Consequently, whereas July of 2005 saw non-stop service from Gallatin Field to only six cities in six different states, July of 2006 saw non-stop service to eleven cities in nine different states giving the traveling public more choices than ever before from Gallatin Field. Some of these new destinations will be successful, some will not. Our goal is to provide a facility that is efficient and capable of handling the changing airline landscape while encouraging market forces to provide the best possible airline service for our community over the long term.

Airline Service



**Gallatin Airport Authority  
Management's Discussion and Analysis  
Fiscal Year 2006**

**Gallatin Field Airport  
(BZN)**

Passenger enplanements for FY 2006 increased 1.6% to 327,856 despite a 4.3% decline in seats. This resulted in a load factor (percentage of seats filled) of 75.6% compared to 71.5% in FY 2005. Capacity and fares will negatively impact enplanements during the latter half of CY 2006 as well. Airline aircraft activity during FY 2006 saw a shift in aircraft size with fewer 737 and CRJ flights and a greater number of 66-70 seat Canadair CR7 flights. We expect this trend to continue with regional carriers taking on more 70 seat aircraft. We also expect to see the addition of occasional 757 flights over the next year during peak travel days in the winter.



**Airline Statistics**

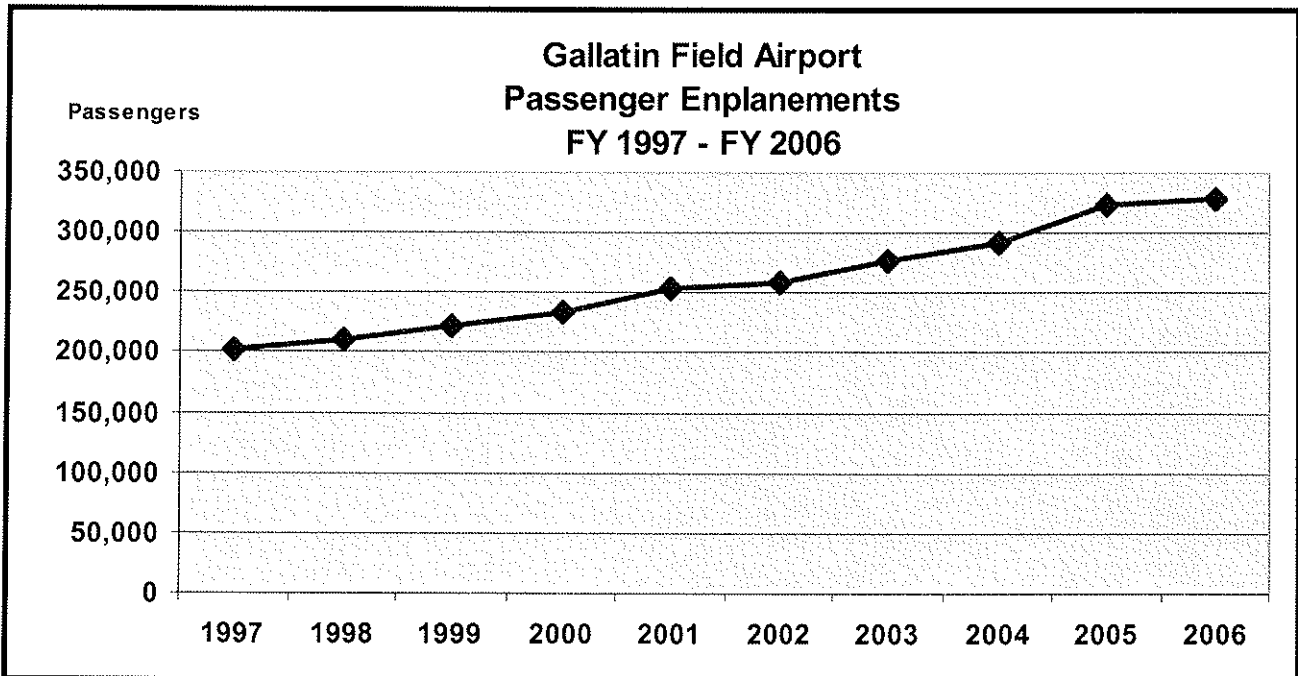
<b>Airline Passenger Activity FY 2006</b>	<b>FY 2005 Available Seats</b>	<b>FY 2006 Available Seats</b>	<b>FY 2005 Enplanements</b>	<b>FY 2006 Enplanements</b>	<b>FY 2005 Load Factor</b>	<b>FY 2006 Load Factor</b>
Big Sky Airlines	0	<b>6,051</b>	0	<b>2,970</b>	N/A	<b>49.1%</b>
Delta	98,106	<b>48,522</b>	63,788	<b>33,270</b>	65%	<b>68.6%</b>
Delta Connection	108,850	<b>128,160</b>	64,084	<b>83,214</b>	58.9%	<b>64.9%</b>
Horizon	43,860	<b>40,816</b>	35,451	<b>36,591</b>	80.8%	<b>89.6%</b>
Northwest	124,624	<b>118,402</b>	100,545	<b>98,162</b>	79.4%	<b>82.9%</b>
Northwest Jetlink	0	<b>8,240</b>	0	<b>6,299</b>	N/A	<b>76.4%</b>
United Express	75,832	<b>81,584</b>	58,894	<b>67,350</b>	77.7%	<b>82.6%</b>
<b>Gallatin Field Total</b>	<b>451,272</b>	<b>431,775</b>	<b>322,762</b>	<b>327,856</b>	<b>71.5%</b>	<b>75.9%</b>

<b>Airline Aircraft Activity FY 2006</b>	<b>Aircraft Passenger Capacity</b>	<b>FY 2005 Landings</b>	<b>FY 2006 Landings</b>	<b>Change</b>	<b>Percent of FY 2005 Airline Aircraft Landings</b>	<b>Percent of FY 2006 Airline Aircraft Landings</b>
B1900	18	0	<b>326</b>	N/M	0%	<b>5%</b>
CRJ	50	3,257	<b>2,889</b>	-11.3%	51%	<b>44%</b>
CR7	66-70	322	<b>1,076</b>	334%	5%	<b>16%</b>
DHC-8-400	74	1,210	<b>1,140</b>	-5.8%	19%	<b>17%</b>
A319	124	385	<b>279</b>	-27.5%	6%	<b>4%</b>
B737-300	128	386	<b>77</b>	-80%	6%	<b>1%</b>
A320	148	533	<b>572</b>	7.3%	8%	<b>9%</b>
B737-800	150	355	<b>261</b>	-26.5%	5%	<b>4%</b>
<b>Gallatin Field Total</b>		<b>6,448</b>	<b>6,620</b>	<b>2.7%</b>	<b>100%</b>	<b>100%</b>

The Delta Air Lines brand continued to carry the most passengers out of Gallatin Field during FY 2006, mainly through its Salt Lake City hub. However, the other three main hubs for Gallatin Field, Denver, Minneapolis and Seattle generate more local market traffic thereby relying less on connecting traffic. We expect, under current conditions, the weaker local market will negatively impact available seats to the Salt Lake City hub despite its competitive geographic location for connectivity. Conversely, while Denver is not quite as competitive geographically, the strong local market more than offsets its location that is slightly too far east for time competitive west coast connections. Non-stops to Seattle on Horizon primarily serve the strong Seattle market and to a lesser degree, the Portland and Alaska markets. Minneapolis continues to be a strong local market and provides efficient connections to the east coast on Northwest; however new non-stop service to Chicago (United Express) and Atlanta (Delta) during the peak seasons provide good alternatives to connecting in Minneapolis. Boise service on Big Sky has been a consistent performer albeit on a much smaller scale.



Airline Statistics



**FY 2006  
 Airline brands ranked by  
 passenger enplanements**

1. Delta	116,484
2. Northwest	104,461
3. United	67,350
4. Horizon	36,591
5. Big Sky	2,970

**FY 2006  
 Airline brands ranked by  
 Departures**

1. Delta	2,642
2. United	1,496
3. Horizon	1,144
4. Northwest	1,012
5. Big Sky	326

Top 10 Airline Markets to and from Gallatin Field

**TOP 10 Markets and average passengers per day for ALL enplaned passengers at Gallatin Field (BZN) Year Ended March 31, 2006** (Source: The Boyd Group)

MARKET	Passengers/day	MARKET	Passengers/day
1. Seattle/Tacoma (SEA)	49	5. New York Area	40
2. Los Angeles Area	49	Newark (EWR)	17
LA International (LAX)	23	LaGuardia (LGA)	13
Orange County (SNA)	14	John F. Kennedy (JFK)	6
Ontario (ONT)	7	White Plains (HPN)	4
Burbank (BUR)	5	6. Denver (DEN)	37
3. San Francisco Area	42	7. Chicago Area	33
San Francisco Intl (SFO)	19	O'Hare (ORD)	26
San Jose (SJC)	12	Midway (MDW)	7
Oakland (OAK)	11	8. Atlanta (ATL)	30
4. Minneapolis/St. Paul (MSP)	41	9. Salt Lake City (SLC)	21
		10. Boston (BOS)	19

**TOP 10 Markets for passengers (enplaned) ORIGINATING at Gallatin Field (BZN) Year ended March 31, 2006**  
 Source: The Boyd Group

MARKET	Passengers/day
1. Denver (DEN)	20
2. Seattle/Tacoma (SEA)	20
3. Los Angeles Area	18
LA International (LAX)	9
Orange County (SNA)	5
Ontario (ONT)	3
Burbank (BUR)	1
4. San Francisco Area	17
San Francisco Intl (SFO)	8
San Jose	5
Oakland	4
5. Minneapolis/St. Paul (MSP)	16
6. Las Vegas (LAS)	13
7. New York Area	12
Newark (EWR)	5
LaGuardia (LGA)	4
John F. Kennedy (JFK)	2
White Plains (HPN)	1
8. Chicago Area	10
O'Hare (ORD)	8
Midway (MDW)	2
9. Salt Lake City (SLC)	10
10. Phoenix (PHX)	10

**TOP 10 Markets for passengers (enplaned) DESTINED to Gallatin Field (BZN) Year ended March 31, 2006**  
 Source: The Boyd Group

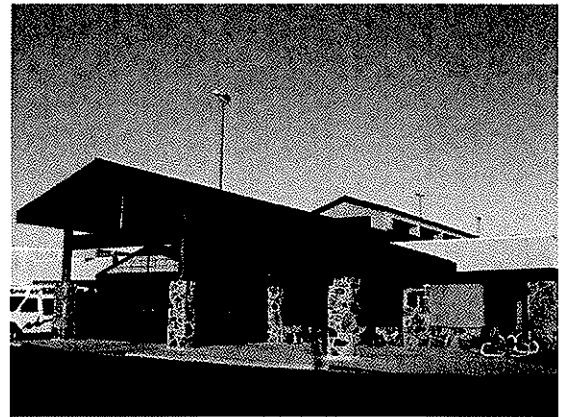
MARKET	Passengers/day
1. Los Angeles Area	31
LA International (LAX)	14
Orange County (SNA)	9
Ontario (ONT)	4
Burbank (BUR)	4
2. Seattle/Tacoma (SEA)	29
3. New York Area	28
Newark (EWR)	12
LaGuardia (LGA)	9
John F. Kennedy (JFK)	4
White Plains (HPN)	3
4. Minneapolis/St. Paul (MSP)	25
5. San Francisco Area	25
San Francisco Intl (SFO)	11
San Jose (SJC)	7
Oakland (OAK)	7
6. Chicago Area	23
O'Hare (ORD)	18
Midway (MDW)	5
7. Atlanta (ATL)	22
8. Denver (DEN)	17
9. Boston (BOS)	13
10. Dallas/Ft. Worth (DFW)	12



**Gallatin Airport Authority  
Management's Discussion and Analysis  
Fiscal Year 2006**

**Gallatin Field Airport  
(BZN)**

Including the airlines, the businesses inside and adjacent to the airline terminal generate total revenues in excess of \$150 million dollars. In addition to their airline ticket, each enplaned passenger spends approximately \$44.00 for parking or rental cars and \$6.00 for food, beverages and gifts inside the terminal. Approximately 8% of enplaned passengers use ground transportation such as taxis and busses.



**Airline Terminal Concessionaire Revenues and Passengers**

**AIRLINES—Gallatin Field  
Period: April 2005—March 2006**

**Total Revenues: \$136,878,712**  
**Taxes/Fees paid from Revenues: \$20,258,079**  
**Net Revenues to Airlines: \$116,620,633**  
**Gallatin Airport Authority Rents/Landing Fees:**  
    **\$1,216,672 (Less than 1% of airline revenue)**  
**Passengers (enplaned + deplaned): 649,288**  
**Average ticket cost per mile: 12.5¢**  
**Average miles flown (one-way): 1,437**  
**Average round-trip ticket price (including taxes and fees) : \$421.58**

**FY 2006  
Airport Rental Car brands ranked by  
revenue at Gallatin Field**

1. Hertz	\$5,389,060
2. Avis	\$2,039,496
3. National	\$1,502,314
4. Budget	\$1,256,864
5. Enterprise	\$1,086,492
6. Thrifty	\$ 854,386
7. Alamo	\$ 854,339
8. Dollar	\$ 278,599

<b>Airline Terminal Concessionaire Revenue FY 2006 vs 2005</b>	<b>FY 2005 Concessionaire Revenue</b>	<b>FY 2006 Concessionaire Revenue</b>	<b>% Change</b>	<b>FY 2005 Passengers Boarded</b>	<b>FY 2006 Passengers Boarded</b>	<b>% Change</b>
On Airport Rental Car	\$9,447,170	<b>\$10,089,069</b>	6.8%			
Off Airport Rental Car	\$3,182,055	<b>\$3,184,293</b>	0%			
Parking Lot	\$975,621	<b>\$1,038,900</b>	6.5%			
Gift Shop	\$1,403,172	<b>\$1,416,220</b>	1%			
Restaurant/Lounge	\$760,038	<b>\$765,735</b>	1%			
Ground Transportation				<b>29,383</b>	<b>26,691</b>	<b>-2.4%</b>
<b>Gallatin Field Total</b>	<b>\$15,768,056</b>	<b>\$16,494,217</b>	<b>4.6%</b>	<b>29,383</b>	<b>26,691</b>	<b>-2.4%</b>

**Gallatin Airport Authority  
Management's Discussion and Analysis  
Fiscal Year 2006**

**Gallatin Field Airport  
(BZN)**

The Gallatin Airport Authority generated approximately \$4,026,514 or \$12.38 per enplaned passenger in airline terminal related operating income through a combination of rents, concession fees, landing fees and minimum annual guarantees. Total revenues (not including Minimum Annual Guarantee adjustments) increased 8.6% during FY 2006.

**Significant Increases** were observed in Airport Rental Car revenue primarily due to increased rates, Parking Lot revenue due to a higher proportion of local boarding passengers during the year and advertising was positively impacted by new electronic flat screen advertising inside the terminal.

**Revenues from the airlines** were impacted primarily on the landing fee side due to a shift to smaller aircraft size and increased terminal operations expenses that are passed on to the airlines in the form of terminal rent.

**Flat growth and/or slight decreases** in airport revenue occurred at the gift shop, the restaurant and lounge and ground transportation primarily due to the small increase in passenger enplanements.

**Minimum annual guarantee (MAG)** adjustments were lower primarily due to lower MAGs in the second year of our on-airport rental car agreements and National/Alamo increasing total revenue over their minimum annual guarantee and not having to make up the difference.



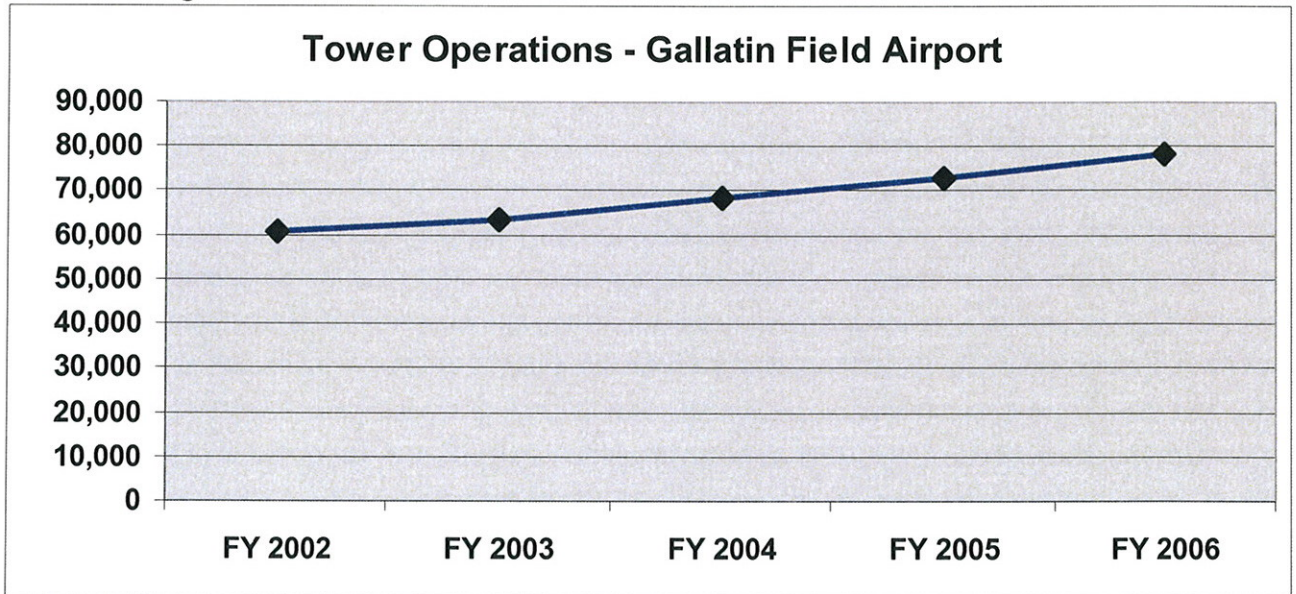
**Airport Revenues—Airline Terminal Area**

<b>Airline Terminal Related Revenues FY 2006 vs FY 2005</b>	<b>FY 2005 Terminal Related Revenues</b>	<b>FY 2006 Terminal Related Revenues</b>	<b>% Change</b>
On Airport Rental Car	\$1,042,038	<b>\$1,187,266</b>	<b>13.9%</b>
Off Airport Rental Car	\$159,103	<b>\$159,215</b>	<b>0%</b>
Parking Lot	\$754,681	<b>\$824,521</b>	<b>9.3%</b>
Gift Shop	\$189,032	<b>\$193,014</b>	<b>2.1%</b>
Restaurant/Lounge	\$76,004	<b>\$76,574</b>	<b>1.0%</b>
Ground Transportation	\$54,849	<b>\$53,812</b>	<b>-2.0%</b>
TSA	\$29,795	<b>\$29,795</b>	<b>0%</b>
Advertising	\$60,538	<b>\$84,140</b>	<b>39.0%</b>
Airlines—Rent	\$707,531	<b>\$786,954</b>	<b>11.2%</b>
Airlines—Landing Fees	\$448,941	<b>\$429,718</b>	<b>-4.3%</b>
<b>TOTAL REVENUES</b>	<b>\$3,522,512</b>	<b>\$3,825,009</b>	<b>8.6%</b>
On Airport Rental Car MAG (Minimum Annual Guarantee) Adjustment	\$535,040	<b>\$184,566</b>	<b>-64.6%</b>
Ground Transportation MAG (Minimum Annual Guarantee) Adjustment	\$19,827	<b>\$16,939</b>	<b>-14.6%</b>
<b>MAG Adjusted Total</b>	<b>\$4,077,379</b>	<b>\$4,026,514</b>	<b>-1.3%</b>

Tower operations at Gallatin Field were positively impacted by strong flight school activity. Local operations increased by 17% during FY 2006. We anticipate total operations for calendar year 2006 to surpass the 80,000 mark for the first time. Airline operations and itinerant general aviation activity also increased during the fiscal year. Approximately 76% of all operations are general aviation related with commercial operations accounting for the remaining 24%. The air traffic control tower at Gallatin Field is in the Contract Tower Program and is staffed by Serco. The tower is open from 6:00 a.m. until midnight with the FAA paying for 16 hours of tower operations and the Gallatin Airport Authority paying for the first and last hour of operations so that the tower is open for all scheduled commercial airline flights.

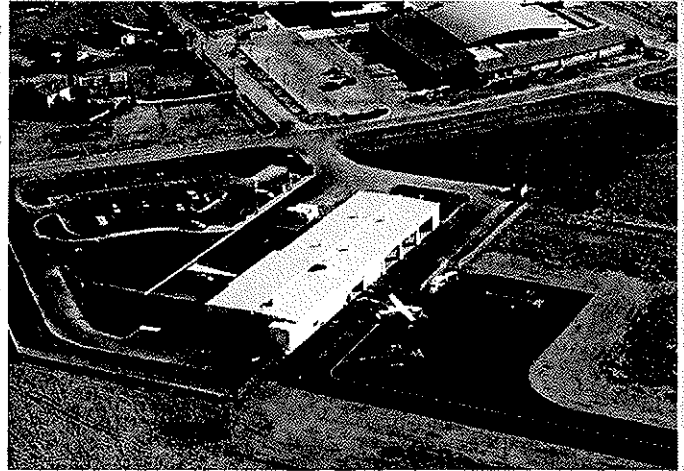


Air Traffic



Tower Operations	FY 2005	FY 2006	Change	% of FY 2005 Operations	% of FY 2006 Operations
Airline—Passenger	12,896	<b>13,240</b>	2.7%	18%	<b>17%</b>
Airline—Cargo	2,420	<b>2,350</b>	-2.9%	3%	<b>3%</b>
Air Taxi	3,480	<b>3,058</b>	-12.1%	5%	<b>4%</b>
General Aviation - Itinerant	27,581	<b>28,419</b>	3.0%	38%	<b>36%</b>
General Aviation—Local	26,456	<b>30,986</b>	17.1%	36%	<b>40%</b>
Military	201	<b>172</b>	-14.4%	<1%	<b>&lt;1%</b>
<b>Gallatin Field Total</b>	72,974	<b>78,225</b>	7.2%	100%	<b>100%</b>

FY 2006 saw Gallatin Field enplane and deplane approximately 5.4 million pounds of air cargo and express. Nearly 91 percent of the cargo and express is carried by FedEx, DHL and UPS. The remaining 9% is carried on passenger airline aircraft serving Gallatin Field.



FedEx currently operates between two and three Cessna Caravans to Great Falls each business day. These flights are operated by Corporate Air. In addition, they operate a truck for lower priority packages. Express carried by air totaled 1,769,578 lbs. Express carried by truck totaled 1,494,710 lbs.

DHL and UPS both operate one daily flight each business day out of Gallatin Field. These flights are operated by Ameriflight, which uses a combination of Beech 99 and Beech 1900 aircraft. Ameriflight saw a 6% increase in cargo traffic to 1,713,374 lbs.

The passenger airlines decreased cargo transported to/from Gallatin Field by 12% to 484,158 lbs. primarily due to the reduction in mainline flights by Delta Airlines. Nationwide, passenger airlines have seen a decrease in cargo due to increased security regulations of cargo transported on passenger aircraft.

The New FedEx Facility between the East Ramp and Airport Road opened in February 2006. This culminated several years planning that provided infrastructure on the east side of the airport and permitted the move of cargo operations from the general aviation ramp to the east side of the airport. The new facility is designed to permit higher levels of security that may be implemented in the future for cargo operations at airports across the nation. In addition, this facility permits FedEx to park all of their vehicles inside for package sorting, allow for expansion and provide direct access to Airport Road without having to use the main terminal access road.

Cargo/Express operations totaled 2,350, down 2.9% during FY 2006. Airport revenues from landing fees for cargo/express operators averaged \$6.10 per operation. The cargo operators do not generally fuel their aircraft at Gallatin Field.

**Air Cargo & Express**

<b>Cargo/Express Only Related Revenues FY 2006 vs FY 2005</b>	<b>FY 2005 Cargo/Express Related Revenues</b>	<b>FY 2006 Cargo/Express Related Revenues</b>	<b>% Change</b>
Landing Fees	\$14,613.31	<b>\$14,341.29</b>	<b>-1.9%</b>

**Commercial General Aviation** at Gallatin Field continues to show exceptional strength. The two full service Fixed Base Operators, Arlin's Aircraft and Yellowstone Jetcenter, provide exceptional service to all users at Gallatin Field and help to support the ever increasing corporate jet traffic. Fuel flowage increased nearly 9% to over 5.8 million gallons during FY 2006.



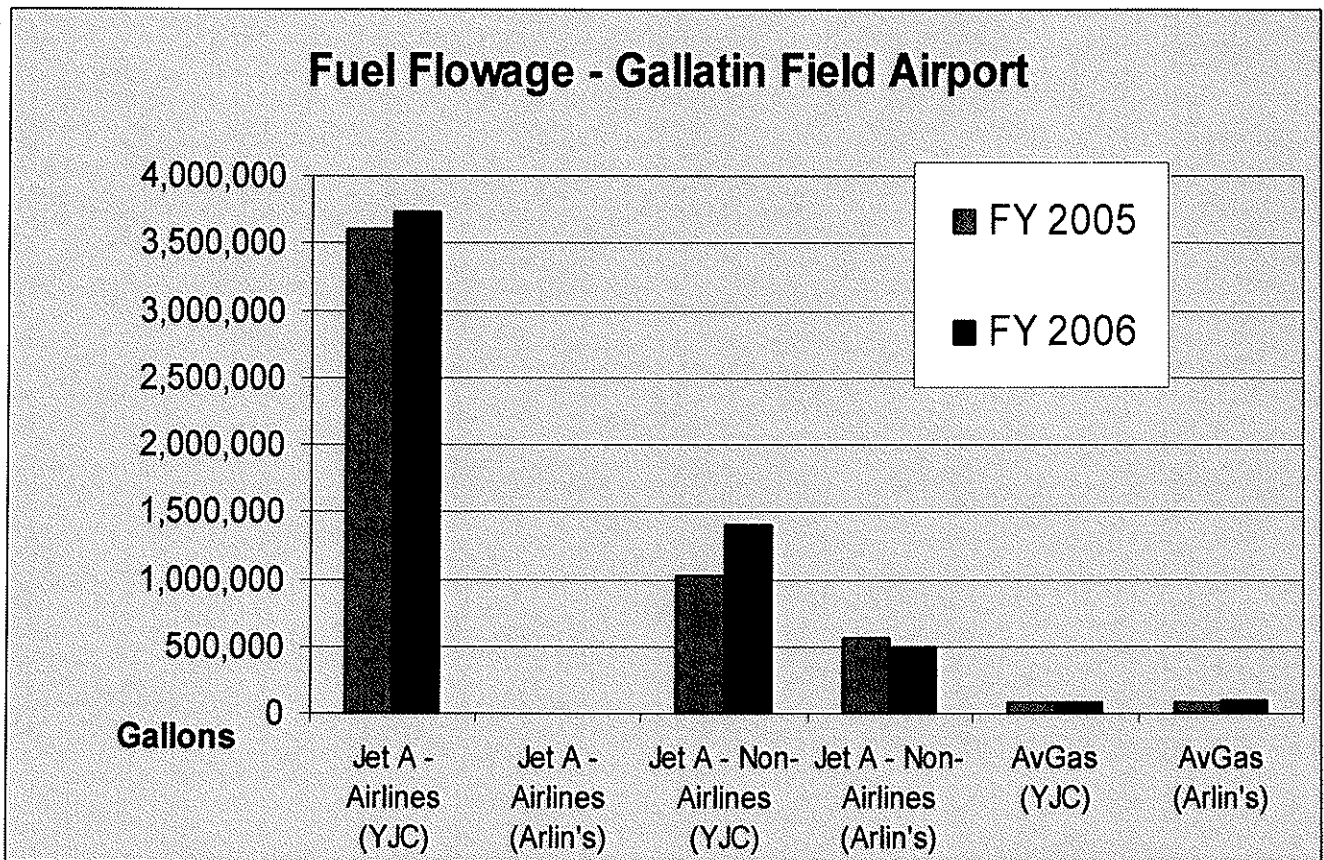
**Flight Schools** continue to thrive with Aero Flight School, Paragon Air Adventures and Summit Aviation providing various levels of flight instruction. Summit Aviation and the College of Technology offers an Associate of Applied Science degree program in aviation with flight instruction based at Gallatin Field.

**Additionally**, Central Copters, Sunbird Aviation, Gallatin Flying Service and Montana Aircraft contribute to the full range of aviation services provided at Gallatin Field.

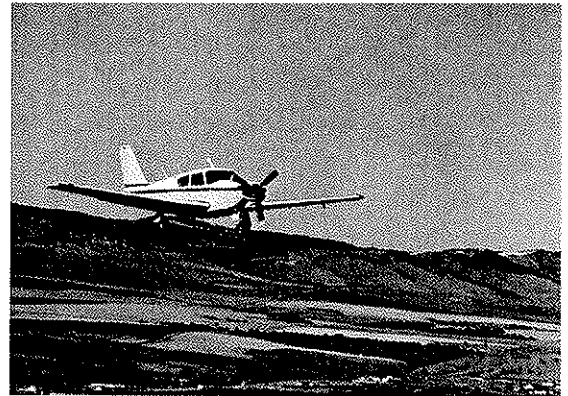
**Gallatin Field** provides an economical base for these aviation-related businesses with a low rate of \$.07 per square foot per year on leased land. This rate has not changed in over nine years. The Gallatin Airport Authority also collects tie-down fees and a low \$.05 per gallon fee on aviation fuel purchased at Gallatin Field.

**Landing Fees**—The Gallatin Airport Authority also collects landing fees on aircraft over 12,500 lbs. Landing fees increased by 9.3% with 2,656 landings of aircraft over 12,500 lbs. during FY 2006.

Commercial General Aviation

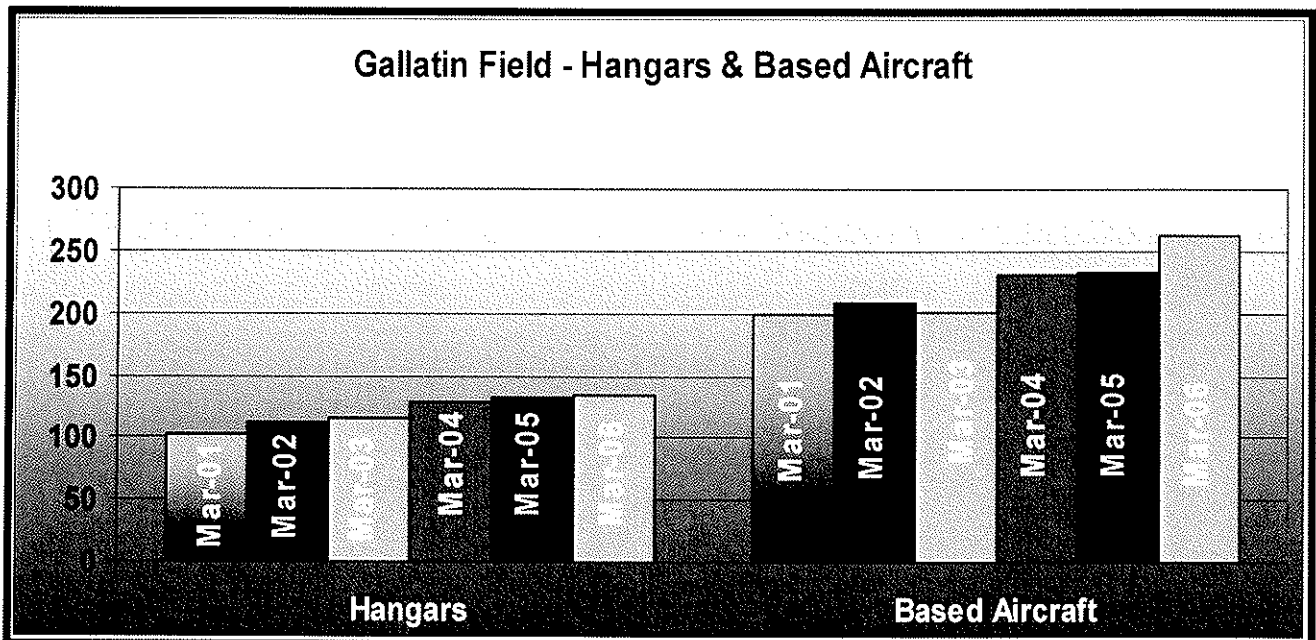


Non-commercial General Aviation in Southwest Montana continues to be a significant contributor to the growth at Gallatin Field. One additional privately built hangar and thirty-one based aircraft were added during FY 2006. In addition, another seventeen hangars have been approved for construction during FY 2007, two of which are expected to be commercial hangars. If all are completed, 139 of the 151 hangars at Gallatin Field will be non-commercial hangars for private aircraft.



**Non-commercial General Aviation**

Based Aircraft	March 2005	March 2006
Ultralite	2	2
Sailplane	15	16
Single Engine (Piston)	171	190
Turboprop (Single)	6	7
Turboprop (Twin)	4	6
Twin Engine (Piston)	8	7
Jet (Single Engine)	3	3
Jet (Multi Engine)	17	24
Helicopter	6	8
<b>Total</b>	<b>232</b>	<b>263</b>



**Gallatin Airport Authority  
Management's Discussion and Analysis  
Fiscal Year 2006**

*Gallatin Field Airport  
(BZN)*

General Aviation (GA) activities in FY 2006 contributed \$354,517 in additional revenue to the Gallatin Airport Authority, up 14.8% from FY 2005. Commercial General Aviation accounted for approximately 69% of the total GA revenue despite accounting for only 8.3% of total GA operations. Excluding hangar rent and land rent, on average, each non-commercial GA operation generated about \$.17 in revenue for the Gallatin Airport Authority and each commercial GA operation generated approximately \$31.41 in airport revenue. Hangar rent and hangar land rent contributed approximately \$2.75 per GA operation in revenue to the Gallatin Airport Authority.



**Airport Revenues—General Aviation**

<b>General Aviation Related Revenues FY 2006 vs FY 2005</b>	<b>FY 2005 GA Related Revenues</b>	<b>FY 2006 GA Related Revenues</b>	<b>% Change</b>
Landing Fees (Aircraft 12,500 lbs and above)	\$70,991	<b>\$89,724</b>	<b>9.3%</b>
Commercial Hangar Land Rent	\$27,040	<b>\$27,040</b>	<b>0%</b>
Commercial Hangar Rent	\$35,328	<b>\$36,343</b>	<b>2.1%</b>
Fuel Flowage—Jet A	\$75,663	<b>\$92,464</b>	<b>13.9%</b>
<b>TOTAL COMMERCIAL GENERAL AVIATION REVENUE</b>	<b>\$209,022</b>	<b>\$245,571</b>	<b>17.5%</b>
Non-commercial Hangar Rent	\$6,360	<b>\$6,360</b>	<b>0%</b>
Non-commercial Hangar Land Rent	\$84,771	<b>\$93,421</b>	<b>10.2%</b>
Fuel Flowage—AvGas	\$8,709	<b>\$9,165</b>	<b>0%</b>
<b>TOTAL NON-COMMERCIAL GENERAL AVIATION REVENUE</b>	<b>\$99,840</b>	<b>\$108,946</b>	<b>9.1%</b>
<b>TOTAL GENERAL AVIATION REVENUES</b>	<b>\$308,862</b>	<b>\$354,517</b>	<b>14.8%</b>

**Gallatin Airport Authority  
Management's Discussion and Analysis  
Fiscal Year 2006**

**Gallatin Field Airport  
(BZN)**

**Operating Income**

**Total Operating Income** for the Gallatin Airport Authority was essentially flat at \$4,572,485. **Airline Terminal Related** income decreased 3.1% to \$3,762,263. Airline Rents and Landing Fees increased 4%. Terminal concessions increased 10.2% mostly due to the gift shop related income. Parking Lot revenue increased 9.3% due to increased local traffic while car rental and ground transportation concession fees decreased 12.6% due to reduced minimum annual guarantees collections. **General Aviation (GA) Related** income increased 16.7% to \$389,408 primarily due to corporate jet activity. **Other Operational** income increased 14.3% to \$406,329.

Operating Income	FY 2006	FY 2005
Landing Fees	\$429,718	\$448,941
Terminal Building Rents	\$1,064,264	\$972,288
Parking Lot	\$824,521	\$754,681
Concessionaires	\$1,443,760	\$1,705,786
Security income and restricted for pavement preservation	\$14,485	\$15,925
General Aviation	\$389,408	\$333,556
Other	\$406,329	\$355,636
<b>TOTAL OPERATING INCOME</b>	<b>\$4,572,485</b>	<b>\$ 4,586,813</b>

**Operating Expenses**

**Total Operating Expenses** for the Gallatin Airport Authority increased by 14.7% to \$4,296,090, however, this included a contribution of \$205,641 to the I-90 Interchange Fund. Without this contribution, Total Operating Expenses were \$4,090,449 or up 9.41%. **Law Enforcement** expense increased 7.5% to \$357,504. **Operation, Maintenance and Control Tower** expenses decreased 11% to \$272,125. **Office, Administration and Other** expenses increased 27% to \$138,310. While office and administration costs by only \$271, other expenses increased by \$29,347 to \$47,847. **Wages/Taxes/Benefits** expenses increased 2.7% to \$1,214,162. Wages and Salaries increased 5.2% while taxes and insurance decreased 4.2% mainly due to a decrease in workers' compensation insurance. **Utilities and Insurance** expenses increased 23.8% to \$406,489. Utilities increased 29.9% while insurance expense decreased 1.8% due to lower premiums. **Depreciation and Amortization** expenses increased 10.2%.

Operating Expenses	FY 2006	FY 2005
Office and Administration	\$90,463	\$90,192
Control Tower and Contract Services	\$41,705	\$55,094
Insurance	\$61,576	\$62,719
Law Enforcement & Security	\$357,504	\$332,458
Operations and Maintenance	\$230,420	\$189,932
Personnel - Wages, Taxes & Benefits	\$1,214,162	\$1,182,093
Utilities	\$344,913	\$265,588
Other (Includes I-90 Interchange Fund)	\$253,488	\$18,500
Depreciation & Amortization	1,701,859	\$1,544,005
<b>TOTAL OPERATING EXPENSES</b>	<b>\$4,296,090</b>	<b>\$3,740,581</b>



## Non-Operating Income and Expenses

**Interest income** more than doubled to \$482,297 due to higher interest rates.

**County tax revenue** - The Gallatin Airport Authority received no county tax revenue during FY 2006.

**Reclamation deposit** income increased to \$12,000.

**Interest expense** remained at \$0.

## Capital Contributions

**Capital contributions** due to capital improvements increased slightly to \$4,172,545.

Changes in Net Assets—The following Statement of Changes in Net Assets presents the financial position of the Gallatin Airport Authority at the end of the fiscal year. The statement includes all operating and non-operating revenues and expenses as well as capital contributions. Changes in net assets are an indicator of whether the overall fiscal condition of the Gallatin Airport Authority has improved or worsened during the year. Changes in Net Assets for the Gallatin Airport Authority increased \$4,943,237 and \$5,195,648 for the years ended June 30, 2006 and 2005 respectively. A summary comparison of the Gallatin Airport Authority's changes in Net Assets on June 30, 2006 and June 30, 2005 is as follows:

**Changes in Net Assets**

<b>Changes in Net Assets</b>	July 1, 2005 - June 30, 2006	July 1, 2004 - June 30, 2005
Operating Revenue	\$4,572,485	\$4,586,813
Operating Expenses	\$(4,296,090)	\$(3,740,581)
Operating Income	\$276,395	\$846,232
Non-Operating Revenue	\$494,297	\$222,100
Non-Operating Expense		
Capital Contributions	\$4,172,545	\$4,127,316
<b>INCREASE IN NET ASSETS</b>	<b>\$4,943,237</b>	<b>\$5,195,648</b>

**Gallatin Airport Authority  
Management's Discussion and Analysis  
Fiscal Year 2006**

**Gallatin Field Airport  
(BZN)**

The following Statement of Net Assets presents the financial position of the Gallatin Airport Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Gallatin Airport Authority. Net assets are the difference between total assets and total liabilities and indicate the current financial health of the Gallatin Airport Authority. The financial position of the Gallatin Airport Authority remains strong with total assets equaling \$51,956,172, an increase of \$5,014,946. Liabilities increased to \$263,631 resulting in total net assets of \$51,692,541. A summary comparison of the Gallatin Airport Authority's assets, liabilities and net assets on June 30, 2006 and June 30, 2005 is as follows:

**Statement of Net Assets**

<b>Statement of Net Assets</b>	June 30, 2006	June 30, 2005
Cash	\$ 10,068,413	\$ 9,242,017
Restricted Cash	\$	\$ 37,263
Receivables/Prepaid Expenses	\$ 2,096,956	\$ 1,648,102
Property, Plant and Equipment	\$ 39,778,723	\$ 35,993,711
Other Assets	\$ 12,080	\$ 20,133
<b>Total Assets</b>	<b>\$ 51,956,172</b>	<b>\$ 46,941,226</b>
Current Liabilities	\$ 263,631	\$ 191,922
Long Term Liabilities	\$ -	\$ -
<b>Total Liabilities</b>	<b>\$ 263,631</b>	<b>\$ 191,922</b>
Net Assets—Invested in Capital Assets	\$ 39,778,723	\$ 35,993,711
Net Assets—Restricted	\$ 106,487	\$ 130,794
Net Assets—Unrestricted	\$ 11,807,331	\$ 10,624,799
Total Net Assets	<b>\$ 51,692,541</b>	<b>\$ 46,749,304</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 51,956,172</b>	<b>\$ 46,941,226</b>

The Gallatin Airport Authority's cash and cash equivalents increased \$789,133 to \$10,068,413 for the year ended June 30, 2006 from \$9,279,280 for the year ended June 30, 2005. Cash in excess of operational needs was invested in the Montana Short Term Investment Program (STIP).

**Cash Management**

<b>Statement of Cash Flows</b>	July 1, 2005 - June 30, 2006	July 1, 2004 - June 30, 2005
Cash Balance at July 1	\$ 9,279,280	\$ 9,160,266
Cash Income	\$ 4,860,502	\$ 4,081,244
Cash Expense	\$ (2,567,667)	\$ (2,146,438)
Interest Income	\$ 482,297	\$ 213,825
County Tax	\$	\$ 275
Reclamation	\$ 12,000	\$ 8,000
PFC Revenue	\$ 752,015	\$ 775,236
AIP Grant Revenue	\$ 2,728,804	\$ 3,673,411
Capital Improvements	\$ (5,478,818)	\$ (6,486,539)
<b>Cash Balance at June 30</b>	<b>\$ 10,068,413</b>	<b>\$ 9,279,280</b>

**Gallatin Airport Authority  
Management's Discussion and Analysis  
Fiscal Year 2006**

**Gallatin Field Airport  
(BZN)**

**FY 2006 Actual to Budget Comparison**

The Gallatin Airport Authority budget is prepared according to provisions in the Airport Authority's Airport Use Agreement and in accordance with budget requirements of the Gallatin County Commission. Operating revenues (cash) reached 126% of budget expectations while operating expenses were only 96% of the budgeted amount. The 2005 capital improvement budget included a potential of \$8,207,638 in projects of which 77% was expended. Contributions from the Gallatin Airport Authority capital improvement fund were not required. Additionally, \$789,133 was contributed to the capital improvement fund from excess revenues.

<b>Actual to Budget Comparison</b>	<b>Income - FY 2006</b>	<b>FY 2006 Actual</b>	<b>FY 2006 Budget</b>
Total Cash Receipts		\$ 4,860,502	\$ 3,839,732
Total Other Income		\$ 494,297	\$ 210,500
Airport Improvement Grants (AIP)		\$ 2,728,804	\$ 3,086,249
Passenger Facility Charge Income (PFC)		\$ 752,015	\$ 715,000
Capital Improvement Fund			\$ 3,115,801
<b>Total Income</b>		<b>\$ 8,835,618</b>	<b>\$ 10,967,282</b>
<b>Actual to Budget Comparison</b>	<b>Expenditures - FY 2006</b>	<b>FY 2006 Actual</b>	<b>FY 2006 Budget</b>
Total Operating Expenditures (Does not include Depreciation or Amortization)		\$ 2,362,026	\$ 2,459,644
Interchange		\$ 205,641	\$ 300,000
Capital Expenditures		\$ 5,478,818	\$ 8,207,638
Capital Improvement Fund		\$ 789,133	
<b>Total Expenditures</b>		<b>\$ 8,835,618</b>	<b>\$ 10,967,282</b>

The following are Capital Improvements have either been completed within FY 2006 or are projects we anticipate to occur during FY 2007.

**Capital Improvements**

**Completed Projects:**

- Acquired Land Parcels 48 & 31—\$581,053 (AIP 31 Funded)
- Fire Station Expansion and New E-One ARFF Truck—\$1,437,500 (AIP 29 Funded)
- Purchased Sweeper Truck—\$130,520 (PFC Funded)
- Purchased Interactive Training System—\$87,400 (PFC Funded)

**Current Projects:**

- Master Plan— Up to \$300,000 (PFC Funded)
- Air Traffic Control Tower Display— Up to \$550,000 (PFC Funded)

**Potential Projects coming within the year:**

- Public Parking Lot Expansion— Up to \$1,000,000 (Airport Funded)
- Land Acquisition— Up to \$2,000,000 (Potential AIP Funding)

**Long Term Debt** — Gallatin Field is debt free and does not anticipate acquiring new debt at this time.

**Capital Improvement Financing** — The Gallatin Airport Authority is financing its capital improvements through a combination of Airport Authority revenues, Airport Improvement Program (AIP) entitlements and discretionary grants received from the Federal Aviation Administration, Passenger Facility Charges (PFC) and state grants.

**Airport Improvement Program (AIP)** — The federal government collects various aviation user fees such as a 7.5% airline ticket tax, a 6.25% tax on air freight, and taxes on aviation fuel sales and parts. Approximately 90% of all the aviation user fees collected come from the airline ticket tax. Congress then appropriates a portion of these user fees back to the airport system through AIP entitlements and discretionary grants. Gallatin Field's AIP entitlement for 2006 is \$2,286,431. Additionally, certain projects are also eligible for funding from discretionary funds. AIP grants require the sponsor airport to provide 5-10% of the funds for each project with the remaining 90-95% paid by the AIP grant. AIP grant income in FY 2006 totaled \$2,728,804.

**Passenger Facility Charges (PFC)** — Currently, Gallatin Field receives nearly \$3.00 from each enplaned revenue passenger through Passenger Facility Charges to be used for capital improvement projects. These capital projects are restricted to projects that are approved by the FAA in consultation with the airlines and will benefit the passengers using the commercial airlines. Our current PFC project, PFC number 3, includes the following projects; expansion of the terminal ramp, Master Plan update, replacing four pieces of 20-year-old snow removal equipment, purchase an Interactive Employee Training System, expand the cargo apron and purchase an Air Traffic Control Tower Radar Display. While Congress authorized airports to increase Passenger Facility Charges from \$3.00 per passenger to \$4.50, Gallatin Field has elected to not increase this charge at this time. FY 2006 collections through Passenger Facility Charges totaled \$752,015.

**Other Grants** — The Gallatin Airport Authority also receives a pavement maintenance grant from the Montana Aeronautics Division. These funds come from the airline fuel tax generated within the state and are distributed annually to the 7 commercial airline airports in Montana. We expect to use several years of future grants to reimburse the construction of the employee parking lot addition.

## Contacting the Gallatin Airport Authority's Financial Management

This financial report is designed to provide the Gallatin Airport Authority's Board, management, Gallatin County Commission, customers and creditors with a general overview of the Airport's finances and to demonstrate the Gallatin Airport Authority's accountability for the funds it receives and expends. For additional information about this report, or if you need additional financial information, please contact Brian Sprenger, Assistant Airport Director, 850 Gallatin Field Rd., Suite 6, Belgrade, MT 59714 or email [info@gallatinfield.com](mailto:info@gallatinfield.com).