GALLATIN AIRPORT AUTHORITY

AUDITED FINANCIAL STATEMENTS

June 30, 2011 and 2010

GALLATIN AIRPORT AUTHORITY
CONTENTS

PART I

INTRODUCTORY SECTION

GALLATIN AIRPORT AUTHORITY
June 30, 2011

ORGANIZATION

BOARD OF COMMISSIONERS

Steve Williamson	Chair
John McKenna	Vice Chair
Kevin Kelleher	Secretary
Richard Roehm	Member
Ted Mathis	Member

AIRPORT DIRECTOR

Brian Sprenger, A.A.E.

DEPUTY AIRPORT DIRECTOR

Scott Humphrey, C.M.

OFFICE MANAGER

Cherie Ferguson

PART II

FINANCIAL SECTION

Junkermier • Clark
Campanella • Stevens • P.C.
Certified Public Accountants and Business Advisors

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

We have audited the accompanying financial statements of the Gallatin Airport Authority as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the Gallatin Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Gallatin Airport Authority as of June 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2011 on our consideration of the Gallatin Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be read in conjunction with this report in considering the results of our audits.

The accompanying Management Discussion and Analysis are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of in-force insurance and boardings listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Gallatin Airport Authority. The accompanying schedules of expenditures of federal awards are presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and are also not a required part of the basic financial statements of the Gallatin Airport Authority. This information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subject to auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Junkermier, Clark, Campanella, Stevens, P.C.

Bozeman, Montana
November 1, 2011

A. MANAGEMENT DISCUSSION AND ANALYSIS

Gallatin Airport Authority Year in Review FY 2011

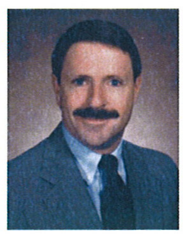
Annual Report FY 2011

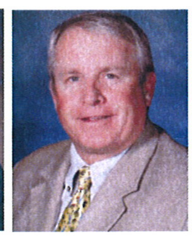
Inside this issue:

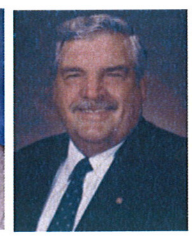
Introduction—The management of the Gallatin Airport Authority has prepared the following discussion and analysis of the financial performance and activity of the Gallatin Airport Authority for the fiscal year ended June 30, 2011. The discussion and analysis should be read in conjunction with the entire 2011 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:

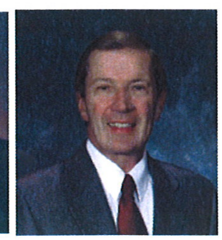
- Activity Highlights – Detail of activities at Gallatin Field that affect the financial performance of the Gallatin Airport Authority
- Financial Highlights – Detail of the FY2011 Gallatin Airport Authority income and expenditures
- Changes in Net Assets – Detail of activities that contributed to the changes in net assets during FY2011


Steve Williamson
Chair


John McKenna, Jr.
Vice Chair


Kevin Kelleher
Secretary


Richard R. Rohem
Member


Ted Mathis
Member

Mission:

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

Airport Staff

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

Deputy Airport Director:
Scott Humphrey, C.M.

Assistant Director, Operations:
Paul Schneider

Chief, Public Safety:
Bill Dove

Office Manager:
Cherie Ferguson

Office Assistants:
Jody Boyd
Connie Janzer

Operations Supervisor:
Chuck Rasnick

Building Maintenance Supervisor
Rhett Boerger

Ops. & Maintenance Staff:
Pat Teague
Joel Dykstra
Wes Mork
Lee Huyser
Dave Morrow
Larry Thompson
Robert Edington
Shaun Dudley

Public Safety Officers:
Kerry Bickle
Levi Talkington
Ken Dove
Jeff McRae
Alan Parker
Rick Shirey

Custodial:
John Story
Rod Freese
Barbra Spatig
Joshua Norris
Vicki Anderson
Brad Watts
Randy Robinson

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

Much of Fiscal Year 2011 was dedicated to the terminal expansion project at Gallatin Field. At the beginning of the year, we were half way into the two year construction project and by the end , we were occupying the entire eight gate concourse and just a month away from moving airlines and concessions to the newly expanded terminal. The new addition has produced a world class airline terminal building that is capable of handling well over one and one half million passengers annually. Even more importantly, this $40 million project will be completed by borrowing only 40% of its value through revenue bonds and without any local taxes. The bonds will be paid off through passenger facility charges (PFC) in the amount of $4.50 on each airline ticket of passengers departing out of Gallatin Field.

This summer's opening of the terminal was just in time for the busiest two months ever at a Montana airport with nearly 100,000 passengers departing Gallatin Field in July and August. This follows the incredible 12.3% passenger growth that occurred in FY 2011 and resulted in a record 385,992 departing passengers for the fiscal year. The growth in passenger traffic has resulted in Gallatin Field becoming essentially equal to Billings Logan International Airport in terms of passengers handled. In fact, calendar year to date through August for 2011, Gallatin Field has handled 282,174 compared to 275,042 at Billings. Based on available seat projections for the rest of calendar year 2011, we expect passenger enplanements for the calendar year to be between 390,000 and 395,000.

Financially, the Gallatin Airport Authority has also benefited from the increase in passengers and the new concession agreements that have been completed over the past two years. Ordinary Income for FY 2011 increased nearly 25% to almost $6.4 million and expenses increased 22.9% to nearly $3.4 million. This resulted in net ordinary income of $3.0 million, which was an increase of $700,000, or nearly 35% over FY 2010. However, it should be noted that in future years a portion of this increase in net ordinary income will be used to pay for the additional operating and maintenance expenses the expanded terminal building will incur. In addition, on a cash flow basis, this additional income, increased passenger facility charge collections and the addition of a $2 million dollar discretionary grant resulted in cash on hand approximately $3 million dollars higher than was originally projected by September 30, 2011.

On the air traffic control front, after two decades of work, we finally have new departure and missed approach procedures that do not conflict with the arrival procedures. This has long been a part of the reason why, during instrument flight rules, air traffic control would only allow one aircraft at a time below 10,000 feet elevation, which often created delays at our airport. These procedural changes along with radar and a re-sectorization of Salt Lake Center (which occurred in late September 2011) should result in substantially reducing air traffic control delays at Gallatin Field. Ultimately, the FAA is working toward adding approach control services at Gallatin Field in late 2013. At this time, we expect these services to be handled out of the Boise Approach facility.

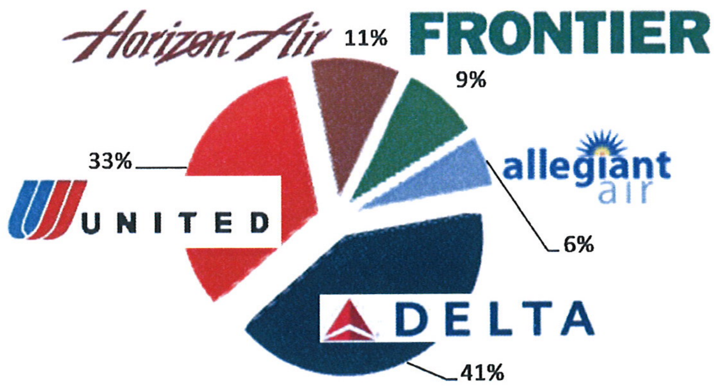
Another project that has been in the works for sometime has been the addition of a Customs and Border Protection facility at Gallatin Field. Fortunately, the stars seemed to align and through a partnership with the Yellowstone Club and Signature Flight Support (which acquired the Yellowstone Jetcenter in early 2011), we were able to fund a remodel of the old terminal building and the operating costs for up to five years. We expect that we should have Customs at Gallatin Field by mid winter 2011/2012. This will result in Gallatin Field becoming the newest international airport in the nation.

All of these accomplishments are the result of an engaged and knowledgeable Airport Board, a professional and experienced staff and the support of the communities throughout Southwest Montana. We are proud to serve the flying public and hope that this report will provide valuable information on the status of your airport. We welcome and value your input on how we can better serve you at Gallatin Field.

Activity Highlights - Enplanements 12.3%

Gallatin Field Airport experienced a 12.3% increase in enplanements for FY 2011 as 385,992 passengers boarded flights and 771,149 passengers passed through the terminal. As of September 30th, 2011, Gallatin Field Airport recorded 20 consecutive months of enplanement growth with some months in excess of 20%. Part of this growth is attributed to additional seats in our market than previous years. FY 2011 had 479,254 seats outbound compared with 419,579 in FY 2011, which represents a 14.2% increase.

MARKET SHARE

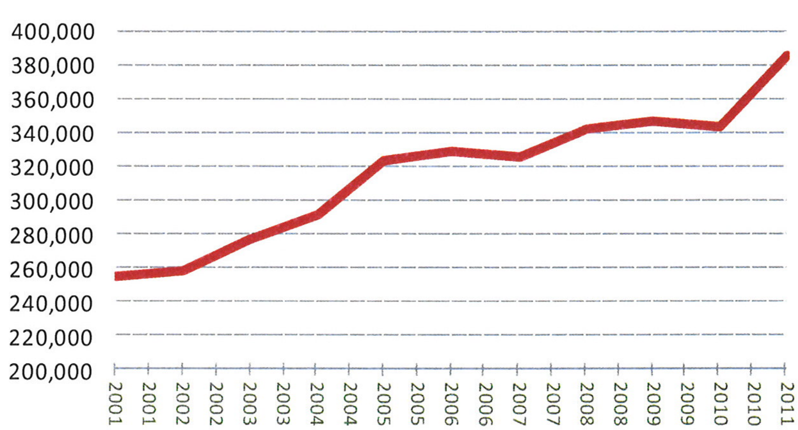


Year Round Non-Stop Destinations:
Denver
Minneapolis
Chicago
Seattle
Salt Lake City
Las Vegas
Phoenix, Mesa

Seasonal Non-Stop Destinations:
Atlanta
San Francisco
Los Angeles

Airline	FY 2011 Seats	FY 2011 Enplanements	FY 2011 Load Factor %
Delta	192,560	157,796	82.0
United	160,644	128,789	80.2
Horizon	56,898	40,430	71.1
Frontier	43,202	34,916	80.8
Allegiant	25,950	23,000	88.6

Annual Enplanements



Top Ten Destinations by Enplanements:

1. Denver
2. Seattle
3. Las Vegas
4. San Francisco
5. Los Angeles
6. New York
7. Minneapolis
8. Chicago
9. Atlanta
10. Washington

Tower Operations 4.3%

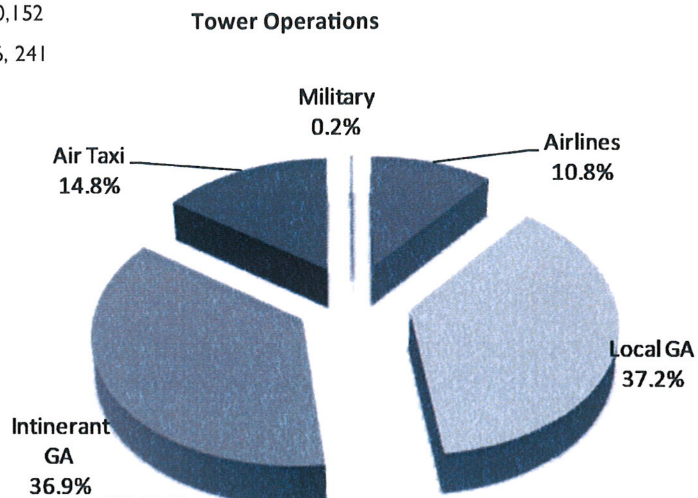
Tower operations increased 4.3% in FY 2011 with 70,023 operations. Operations are defined as a departure or arrival. Gallatin Field Airport had a net increase in airline frequency and size of aircraft with 280 additional departures and one new destination, Phoenix Mesa Airport. Itinerant operations (visiting general aviation aircraft not based at Gallatin Field Airport) saw a substantial decline as fewer general aviation pilots visited the area due to the persistently high fuel prices. Local GA traffic increased 9.9% due, in part, to increased enrollment in our various flight schools. Corporate landings over 12,500 lbs (which are included in the general aviation numbers) increased

OPERATIONS	% CHANGE FROM FY 2010	FY2011
AIRLINES	3.8	7,587
AIR TAXI	12.0	10,385
ITINERANT GENERAL AVIATION	(26.8)	25,828
LOCAL GENERAL AVIATION	9.9	26,050
MILITARY	(34.5)	173
Corporate Landings > 12,500 lbs	15.1%	2,684

Fuel Flowage Income 9.8%

Fuel flowage income increased 9.8% to $109,975. Airline sales increased 15.1%, non-Airline Jet A increased 7.4% while general aviation Avgas sales decreased 12%. Gallatin Field receives $.06 for every gallon pumped of Avgas and non-signatory airline , non-government Jet-A fuel.

Type of Fuel	% Change from FY2010	2011 Gallons Pumped
Jet A—Airlines	15.1	4,689,215
Jet A	7.4	1,740,152
Avgas	(12.0)	136, 241



Cargo, Express & Mail (15.9)%

Total cargo, express and mail decreased 15.9% from 4,505,348 lbs. in FY 2010 to 3,787,878 lbs. in FY2011. During this same timeframe, U.S. Domestic Air Cargo was down (5.8) percent according to the U.S. Department of Transportation statistics. Cargo numbers are driven by consumption, which belies business and consumer confidence. Gallatin Field receives revenue from cargo operations through landing fees and rent paid by FedEx, UPS and airlines.

Carrier	% Change from 2010	CY 2011 LBS Moved
FedEx	(21.8)	2,633,000
UPS	(0.2)	825,278
Airlines	(3.5)	299,599

Rental Car Revenue 26.6%

Rental car commission increased from $1,498,642 in FY 2011 to $1,886,875 in FY 2011 due to increased passenger traffic. In conjunction with the terminal project, all rental car operations have been relocated to the east end of the terminal including car returns and ready vehicles. This defines the terminal into two entities, the west side is air transportation, the east side is ground transportation. Additionally, the airport signed agreements with three off-airport rental car agencies. On-airport rental agencies pay the authority the greater of a Minimum Annual Guarantee or a 10% commission fee plus rent for office space and parking stalls. Off-airport agencies pay the Authority a 10% commission fee for each rental originating at the airport.

On-Airport Brand	Concession Fee FY2011	Market Share
Hertz	$628,790	33.3%
Alamo/National	$438,924	23.3%
Budget/Avis	$416,687	22.1%
Enterprise	$215,094	11.4%
Dollar/Thrifty	$187,379	9.9%

Parking Revenue 31.0%

Revenue from parking operations increased 31.1% from $1,078,892 in FY 2010 to $1,413,765 in FY 2011. With completion of the terminal expansion project, the airport divided the parking lot into two separate lots (premium & economy) in order to increase the turn-over rate in front of the terminal. Economy rates remained at $7.00 per-day, $42.00 per-week while premium rates were increased to $10.00 per-day and $70.00 per-week. These rates remain competitive with other Montana commercial service airports.

Food & Retail Revenue 51.9%

Food and retail commission increased 50.9% from $272,807 in FY 2010 to $412,062 in FY 2011. Gift shop commission increased 38.3% while the restaurant commission increased 88.0%. The terminal addition allowed us to relocate the restaurant to the concourse behind security, which allows passengers to clear security first, then relax and enjoy a meal or take advantage of the grab-and-go offerings without having to worry about wait times at the security checkpoint. The restaurant, with an updated menu and décor, retains the same panoramic views as the original lounge. The new terminal Bistro, located on the main floor serves hot food, snacks, and drinks pre-security for family and friends dropping off or picking up passengers.

Ground Transportation Revenue 9.4%

Ground Transportation commission rose 9.4% to $64,585. Eight providers operate cab, bus and limo service out of Gallatin Field Airport for the 25,497 passengers that took advantage of this service. The airport received a concession of $1.50 per-passenger for the service, the remainder of revenue comes from a Minimum Annual Guarantee.

With completion of the terminal project, cash income increased 21.8% while cash payments increased 16.8%.

Landside: All terminal concessions including rents, advertising , phone and ATM fees increased 16.3% from $1,115,227 in FY 2010 to $1,297,445 in FY 2011.

Airside: Landing fees for airlines increased 10.7% while landing and tie down fees for freighters and general aviation fell (2.1%) Gallatin Field Airport charges signatory airlines $1.12 per thousand pounds of the aircraft's maximum landing weight for each arrival and freighters and general aviation aircraft above 12,500 lbs $1.50 per thousand pounds maximum landing weight. These fees, along with hangar rent offsets airfield maintenance and utilities expense.

Statement of Cash Flows	FY2011	FY2010
Cash Income	$6,141,263	$5,251,111
Cash Payments	$(3,437,806)	$(2,897,398)
Net Cash Provided by Operations	**$2,703,457**	**$2,353,713**
Cash From Non-Operating Activities		
Net Purchases Property, Plant & Equipment	$(26,337,569)	$(18,073,137)
PFC Receipts	$1,442,664	$1,307,979
CFC Receipts	$420,987	$224,565
Grants	$6,281,230	$5,917,950
Bond Proceeds and interest payments	$(653,486)	$15,258,902
Net Cash Provided (used) by Financing Activities	**$(18,846,174)**	**$4,636,259**
Investments Sold (CDs)	$7,456,337	$3,663,362
Investments Purchased (CDs)	$(36,380)	(1,144,120)
Interest Received	$419,569	$198,526
Net Cash Provided by Investing	**$7,839,526**	**$2,687,768**
Cash and Cash Equivalents at Beginning of the Year	$12,477,292	$2,799,552
Cash and Cash Equivalents at End of the Year	$4,174,101	$12,477,292
Net Increase (Decrease) in Cash	**$(8,303,191)**	**$9,677,740**

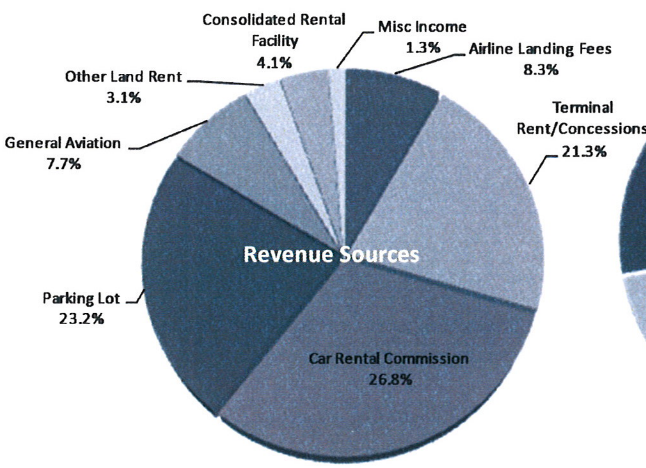
FY 2011 Actual to Budget Comparison: The Gallatin Airport Authority budget is prepared according to provisions in the Airport Authority's Use and Lease Agreement and in accordance with budget requirements of the Gallatin County Commission. Operating revenues were 17.2% better than budget while operating expenses were 6.2% below budget. Capital Expenditures (for the terminal project) were budgeted at $33,379,700 while actual expenditures came in at $28,003,373 due to timing of payments. Capital Improvement Funding provided $10,943,695 towards terminal improvements.

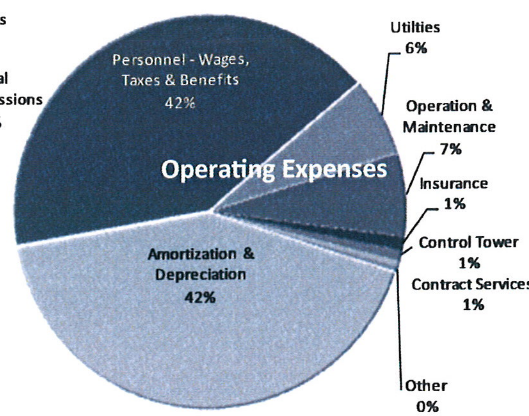
Actual to Budget Comparison	FY 2011 Actual	FY 2011 Budget
Operating Revenue	$6,408,102	$5,302,945
Non-Operating Revenue	$(261,015)	$160,541
Grants	$9,049,395	$10,386,281
PFC Income	$1,442,664	1,150,000
CFC Revenue	$420,987	$458,476
Capital Improvement Fund	$10,943,695	$15,921,457
Total Income	**$28,003,828**	**$33,379,700**
Total Operating Expense (Not Including Depreciation or Amortization)	$3,379,026	$3,589,506
Interchange	$0	$0
Capital Expenditures	$24,624,802	$29,790,194
Total Expenditures	**$(28,003,828)**	**$(33,379,700)**

Statement of Net Assets FY 2011: Presents the financial position of the Gallatin Airport Authority at the end of the fiscal year 2011. The statement includes all assets and liabilities and indicates the current financial health of the Gallatin Airport Authority. Total assets increased $10,895,529 to $94,864,112 with partial closeout of the terminal project. A summary comparison to the right: includes the Gallatin Airport Authority's assets, liabilities and net assets as of June 30, 2011 and June 30, 2010:

(1) Airport Master Plan, Bond Issuance Cost.

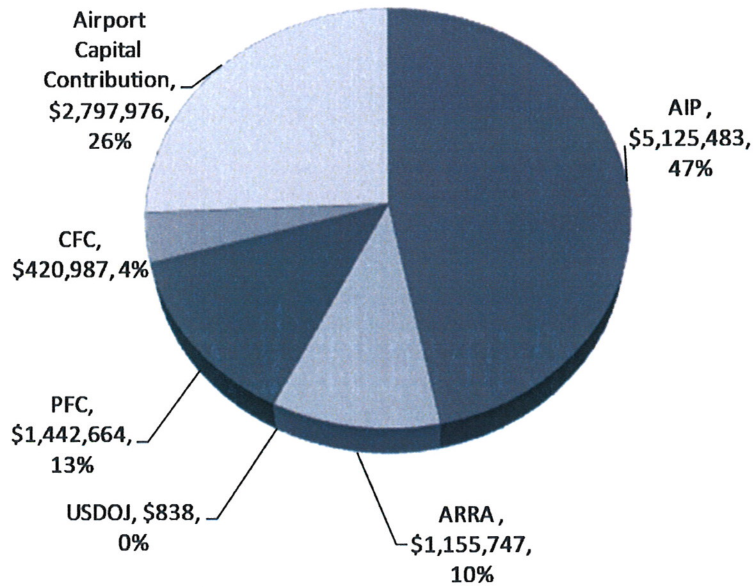
Statement of Net Assets	FY2011	FY2010
Cash & Equivalents	$1,800,924	$6,057,446
Investments	$1,145,833	$8,565,790
Restricted Cash	$2,373,177	$6,419,846
Receivable/Prepaid Expense	$4,577,606	$1,447,032
Property, Plant & Equipment (Including Accumulated Depreciation)	$84,406,073	$60,872,588
Other Assets (1)	$562,143	$605,882
Total Assets	**$94,865,756**	**$83,968,584**
Current Liabilities	$256,218	$251,755
Long-Term Liabilities 2009 Bonds	$16,000,000	$16,000,000
Total Liabilities	**$16,256, 218**	**$16,251,755**
Net Assets Invested in Capital	$68,968,216	$51,862,033
Net Assets-Restricted	$3,743,265	$1,374,009
Net Assets-Unrestricted	$5,898,057	$14,480,787
Total Net Assets	**$78,609,538**	**$67,716,829**
Total Liabilities & Net Assets	**$94,865,756**	**$83,968,584**
Changes in Net Assets	**FY2011**	**FY2010**
Operating Revenue	$6,409,745	$5,213,902
Operating Expense (Including Depreciation and Amortization)	$(6,199,716)	$(5,273,859)
Operating Income	**$210,029**	**$(59,957)**
Non-Operating Income (Expense)	$(261,015)	$(69,751)
Capital Contributions	$10,943,695	$7,973,867
Increase in Net Assets	**$10,892,709**	**$7,844,159**





The accompanying notes are an integral part of the financial statements.

Sources of Capital



Airport Improvement Plan **(AIP)** The federal government collects various aviation user fees such as airline ticket tax, a tax on air freight, and taxes on aviation fuel sales and parts. Additionally, certain projects are eligible for funding from discretionary funds. Congress appropriates a portion of these user fees back to the airport system through AIP entitlements and discretionary grants. Gallatin Field received $5,126,646 dollars in FY 2011 covering multiple grants for the terminal project. AIP grants require the airport to provide 5-10% of the funds for each project with the remaining 90-95% paid by the AIP grant.

Passenger Facility Charges **(PFC)** Gallatin Field receives $4.50 from each enplaned revenue passenger less an airline handling fee of $0.11. Passenger Facility Charges are used for capital improvement projects. These capital projects are restricted to projects approved by the FAA in consultation with the airlines for the benefit of our passengers. The majority of our long-term PFC revenue ($1,442,664 FY 2011) will be used to pay back the $16,000,000 Revenue Bond used for the terminal project.

Customer Facility Charge **(CFC)** - The airport instituted a $2.00 customer facility charge in 2009 to build and maintain the consolidated rental car facility. In the same manner as a PFC, the airport, in consultation with the rental car agencies, agreed to levy a user fee to fund and maintain the $3.5 million dollar facility. In FY 2011, the airport received $420,987 in CFC revenue for capital improvements.

America Recovery and Reinvestment Act **(ARRA)** - Gallatin Field received a one-time grant from the Department of Homeland Security in the amount of $3,266,866 of which $1,155,747 was reimbursed during FY 2011. This grant covered partial cost of construction and installation of our new baggage handling system, checked baggage inspection system, and explosive detection systems for the Transportation Security Administration (TSA).

The Bulletproof Vest Partnership (BVP), created by the Bulletproof Vest Partnership Grant Act of 1998 is a unique U.S. Department of Justice **(USDOJ)** initiative designed to procure bullet proof vest for state and local law enforcement. Gallatin Field received $838 in FY 2011 for its Public Safety department.

Airport Capital Contributions—These funds are derived from a combination of provisions of airport facilities, user fees and bond proceeds.

GAA Bond Reporting

Historical Total Passengers

Year	Enplanments	Deplanements	Total	Growth
FY 2011	**385,992**	**385,157**	**771,149**	**5.9%**
CY 2010	365,210	362,838	728,048	6.55%
CY 2009	342,714	340,563	683,277	-2.7%
CY 2008	351,214	351,281	702,495	4.7%
CY 2007	335,276	335,598	670,874	6.0%
CY 2006	317,276	315,912	633,188	-5.8%
CY 2005	335,679	336,803	672,482	8.5%
CY 2004	308,985	310,558	619,543	9.9%
CY 2003	281,052	282,871	563,923	3.0%
CY 2002	274,499	273,026	547,525	6.9%
CY 2001	256,134	256,262	512,396	5.6%
CY 2000	242,650	242,692	485,342	9.0%
CY 1999	222,767	222,564	445,331	n/a

(FY) Airline Cost Per Enplanement

Year	Total Landing Fees	Airline Terminal Rents	Total Cost (Airline Payments)	Enplaned Passengers	Cost per En-planed Passenger
2011	**521,056**	**726,561**	**1,247,617**	**385,992**	**$3.23**
2010	466,433	682,649	1,149,082	342,714	$3.35
2009	477,578	681,916	1,159,494	347,051	$3.34
2008	524,409	652,491	1,176,900	342,754	$3.43
2007	464,372	611,815	1,076,187	326,198	$3.30
2006	429,718	599,854	1,029,572	328,870	$3.13
2005	429,571	577,118	1,006,689	323,806	$3.11
2004	448,941	531,220	980,161	291,309	$3.36

Historical Enplanements By Airline

	CY 2005		CY 2006		CY 2007		CY 2008		CY 2009		CY 2010		**FY 2011**	
Carrier	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	**Enplane-ments**	**Share**
Delta	132,518	39.5%	101,837	32.0%	99,813	29.8%	93,478	26.6%	82,093	24.0%				
North-west	104,403	31.1%	97,807	30.8%	91,989	27.4%	92,542	26.3%	75,426	22.0%	155,924	42.7%	**157,796**	**40.9%**
United	61,081	18.2%	76,161	24.0%	94,554	28.2%	95352	27.1%	98,560	28.8%	119,649	32.8%	**128,789**	**33.4%**
Horizon	35,110	10.5%	37,067	11.7%	43,690	13.0%	39,626	11.3%	31,081	9.1%	37,070	10.2%	**40,430**	**10.5%**
Frontier	–	–	–	–	–	–	27,039	7.7%	42,528	12.4%	35,847	9.8%	**34,916**	**9.0%**
Allegiant	–	–	–	–	–	–	3,025	0.9%	12,894	3.8%	15,708	4.3%	**23,000**	**6.0%**
Big Sky	1,335	0.4%	4,024	1.3%	4,459	1.3%	152	0.0%	–		–			
Charters	1,232	0.4%	954	0.3%	771	0.2%	0	0.0%	132	0.0%	1012	0.3%	**1,061**	**0.3%**
Totals	335,679	100.0%	317,850	100.0%	335,276	100.0%	351,214	100.0%	342,714	100.0%	365,210	100.0%	**385,992**	**100.0%**

Historical Fees and Rental Charges

Item	2004	2005	2006	2007	2008	2009	2010	**2011**
Landing Fee (per each 1,000 lbs)	$0.96	$0.96	$1.12	$1.05	$1.03	$1.12	$1.12	**$1.15**
Annual Terminal Rentals								
Finished	$17.77	$19.30	$20.06	$20.98	$21.89	$21.06	$21.62	**$22.27**
Unfinished	$10.66	$11.58	$12.04	$12.59	$12.97	$12.97	$12.97	**$12.97**
Jet Bridge	$10.00/ use	$10.00/ use	$10.00/ use	$10.00/ use	$10.00/ use	$10.00/ use	$10.00/ use	**$10.00/ use**
Annual Cargo Building Rental (per sq ft)	$10.66	$11.58	$12.04	$12.59	$12.97	$12.97	$12.97	**$12.97**

GAA Bond Reporting

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

	Audited 2005-2006	Audited 2006-2007	Audited 2007-2008	Audited 2008-2009	Audited 2009-2010	Audited 2010-2011
Operating Income						
Landing Fees	$ 429,718	$ 453,571	$ 507,222	$ 484,272	$ 466,433	$ 521,056
Terminal Building Rents	$ 389,408	$ 1,099,015	$ 1,117,227	$ 1,121,782	$ 1,115,228	$ 1,297,444
General Aviation	$ 1,064,264	$ 425,092	$ 486,602	$ 429,327	$ 447,042	$ 469,563
Concessions	$ 1,443,760	$ 1,476,304	$ 1,572,063	$ 1,515,584	$ 1,552,861	$ 1,952,099
Parking Lot	$ 824,521	$ 823,090	$ 1,049,104	$ 1,093,973	$ 1,078,829	$ 1,412,123
Security Income	$ 3,485	$ 6,305	$ 6,465	$ 3,475	$ 5,045	$ 9,855
Restricted for Pavement Preservation	$ 11,000	$ 12,000	$ 12,000	$ 10,000	$ 12,500	$ 10,500
Other	$ 406,329	$ 437,309	$ 438,460	$ 458,130	$ 535,964	$ 735,462
Total Operating Income	$ 4,572,485	$ 4,732,686	$ 5,189,143	$ 5,116,543	$ 5,213,902	$ 6,408,102
Operating Expenses						
Office and Administration	$ 95,705	$ 82,249	$ 65,576	$ 64,688	$ 78,683	$ 83,762
Contract Services	$ 41,705	$ 63,128	$ 58,379	$ 78,014	$ 49,419	$ 32,184
Control Tower & Fire Safety	-	-	$ 78,118	$ 78,378	$ 92,009	$ 86,390
Insurance	$ 61,576	$ 66,885	$ 61,962	$ 64,838	$ 71,500	$ 60,260
Law Enforcement & Security	$ 357,504	$ 371,520	$ 416,936	$ 14,113	$ 29,688	$ 40,739
Operations, Maintenance	$ 230,420	$ 226,082	$ 288,044	$ 211,119	$ 249,758	$ 364,019
Personnel - Wages, Taxes & Benefits	$ 1,214,162	$ 1,424,023	$ 1,548,961	$ 1,900,034	$ 1,950,800	$ 2,185,687
Utilities	$ 330,123	$ 351,543	$ 352,555	$ 374,806	$ 335,851	$ 437,229
Other	$ 263,036	$ 48,640	$ 32,248	$ 51,005	$ 50,002	$ 88,720
Depreciation and Amortization	$ 1,701,859	$ 1,851,172	$ 1,944,902	$ 2,236,217	$ 2,366,149	$ 2,820,726
Total Operating Expenses	$ 4,296,090	$ 4,485,242	$ 4,847,681	$ 5,073,212	$ 5,273,859	$ 6,199,716
Net Operating Revenue						
(Operating Income/Loss)	$ 276,395	$ 47,444	$ 341,462	$ 43,331	$ (59,957)	$ 208,386
Plus: Non-Operating Revenues (Expenses)	$ 222,100	$ 659,930	$ 577,630	$ 357,407	$ (69,751)	$ (261,015)
Plus: Depreciation and Amortization	$ 1,701,859	$ 1,851,172	$ 1,944,902	$ 2,236,217	$ 2,366,149	$ 2,820,726
Net Revenue Available for Debt Service	$ 2,200,354	$ 2,758,546	$ 2,863,994	$ 2,636,955	$ 2,236,441	$ 2,768,097
Plus: Passenger Facility Charges	$ 752,015	$ 767,227	$ 817,883	$ 955,384	$ 1,281,823	$ 1,473,313
Pledged Revenue Available for Debt Service	$ 2,952,369	$ 3,525,773	$ 3,681,877	$ 3,592,339	$ 3,518,264	$ 4,241,410
Annual Debt Service Requirement	n/a	n/a	n/a	n/a	$ 399,352	$ 653,486
Debt Service Coverage Based on Annual Debt Service Requirement	n/a	n/a	n/a	n/a	8.81	6.49
Maximum Annual Debt Service Requirement Occurs in FY 2023	n/a	n/a	n/a	n/a	$ 1,144,120	$ 1,144,120
Debt Service Coverage Based on Maximum Annual Debt Service Requirement	n/a	n/a	n/a	n/a	3.08	3.71

The accompanying notes are an integral part of the financial statements.

GAA Bond Reporting

Historical Cash & Investment Balance

		Audited 2005-2006		Audited 2006-2007		Audited 2007-2008		Audited 2008-2009		Audited 2009-2010		Audited 2010-2011
Cash and Investment Balance at July 1	$	9,279,280	$	10,068,413	$	13,688,541	$	16,233,194	$	13,696,411	$	21,043,082
Cash Income	$	4,860,502	$	4,909,182	$	5,130,582	$	5,116,543	$	5,251,111	$	6,141,263
Cash Expense	$	(2,567,667)	$	(2,599,296)	$	(2,909,779)	$	(2,663,158)	$	(3,638,497)	$	(3,437,806)
Interest /Investment Income	$	482,297	$	641,930	$	487,110	$	33,069	$	356,700	$	419,569
County Tax		-		-		-		-		-		-
Reclamation	$	12,000	$	18,000	$	18,000		-		-		-
PFC & CFC Revenue	$	752,015	$	767,227	$	825,526	$	955,384	$	1,532,544	$	1,863,651
Grant Revenue	$	2,728,804	$	1,168,412	$	3,384,988	$	(17,821)	$	5,917,950	$	6,221,230
Capital Improvements	$	(5,478,818)	$	(1,285,327)	$	(4,401,774)	$	(5,960,800)	$	(18,073,137)	$	(26,337,569)
Bond Proceeds									$	16,000,000		-
Cash and Investment Balance at June 30	$	10,068,413	$	13,688,541	$	16,223,194	$	13,696,411	$	21,043,082	$	5,319,934

The accompanying notes are an integral part of the financial statements.

Long-Term Bond Schedule

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

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

B. BASIC FINANCIAL STATEMENTS

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF NET ASSETS

	June 30 2011	June 30 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,800,924	$ 6,057,446
Investments	1,145,833	8,565,790
Receivables		
Customers, net	890,587	633,884
Grant	3,317,693	549,529
Passenger facility charges	224,255	193,606
Prepaid expenses	145,071	70,013
	7,524,363	16,070,268
OTHER ASSETS		
Bond issue cost, net	287,550	314,647
Intangible asset, net	274,593	291,235
Restricted cash and cash equivalents	2,373,177	6,419,846
	2,935,320	7,025,728
PROPERTY, PLANT AND EQUIPMENT		
Land	9,951,856	9,951,856
Runways and improvements	32,565,255	32,342,890
Buildings and equipment	28,520,520	28,079,194
Construction in progress	45,115,980	19,442,102
	116,153,611	89,816,042
Accumulated depreciation	(31,747,538)	(28,943,454)
	84,406,073	60,872,588
Total assets	$ 94,865,756	$ 83,968,584
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable from unrestricted assets		
Accounts payable	$ 982	$ 7,445
Compensated absences	217,115	194,410
Deferred revenue	38,121	49,900
	256,218	251,755
LONG-TERM LIABILITIES		
2009 revenue bonds payable	16,000,000	16,000,000
Total liabilities	16,256,218	16,251,755
NET ASSETS		
Invested in capital assets, net of related debt	68,968,216	51,862,033
Restricted for capital projects and debt service	3,743,265	1,374,009
Unrestricted	5,898,057	14,480,787
Total net assets	78,609,538	67,716,829
Total liabilities and net assets	$ 94,865,756	$ 83,968,584

The accompanying notes are an integral part of the financial statements.

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years ended June 30	
	2011	2010
OPERATING REVENUES		
Landing fees	$ 521,056	$ 466,433
General aviation	469,563	447,042
Terminal building rents	1,297,445	1,115,228
Concessionaires	1,952,099	1,552,861
Parking lot	1,413,765	1,078,829
Security income	9,855	5,045
Restricted for pavement preservation	10,500	12,500
Other	735,462	535,964
	6,409,745	5,213,902
OPERATING EXPENSES		
Accounting and auditing	14,610	7,900
Additional security	40,739	29,688
Advertising	3,805	4,620
Aircraft rescue and fire fighting	23,661	21,495
Amortization	16,642	16,642
Contract services	895	17,534
Control tower	62,729	70,514
Deposit refunds	21,828	(4,870)
Depreciation	2,804,084	2,349,507
Dues and subscription	15,040	17,426
Insurance	60,260	71,500
Lease	12,000	12,000
Legal	4,093	6,144
Miscellaneous	66,892	38,252
Office	30,612	25,960
Payroll taxes and insurance	581,427	500,407
Professional services	12,586	17,841
Repairs and maintenance	364,019	249,758
Salaries and wages	1,604,260	1,450,393
Telephone	6,649	6,815
Travel and training	15,656	28,482
Utilities	437,229	335,851
	6,199,716	5,273,859
Operating income (loss)	210,029	(59,957)
NONOPERATING REVENUES (EXPENSES)		
Interest income	419,569	356,700
Amortization of bond issuance costs	(27,098)	(27,098)
Interest expense	(653,486)	(399,353)
	(261,015)	(69,751)
CAPITAL CONTRIBUTIONS REVENUES		
Restricted for capital improvements	10,943,695	7,973,867
CHANGE IN NET ASSETS	10,892,709	7,844,159
Net assets at beginning of year	67,716,829	59,872,670
NET ASSETS AT END OF YEAR	$ 78,609,538	$ 67,716,829

The accompanying notes are an integral part of the financial statements.

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating cash receipts from customers	$ 6,141,263	$ 5,251,111
Cash payments to suppliers for goods and services	(1,856,251)	(1,472,452)
Cash payments to employees for services	(1,581,555)	(1,424,946)
Net cash provided by operating activities	2,703,457	2,353,713
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net purchases of property, plant and equipment	(26,337,569)	(18,073,137)
Grant receipts	6,281,230	5,917,950
Passenger facility charge receipts	1,442,664	1,307,979
Customer facility charge receipts	420,987	224,565
Bond proceeds received	-	16,000,000
Payment of bond issuance costs	-	(341,745)
Bond interest payments	(653,486)	(399,353)
Net cash provided (used) by capital and related financing activities	(18,846,174)	4,636,259
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	7,456,337	3,633,362
Purchase of investments	(36,380)	(1,144,120)
Interest received	419,569	198,526
Net cash provided by investing activities	7,839,526	2,687,768
NET INCREASE (DECREASE) IN CASH	(8,303,191)	9,677,740
Cash and cash equivalents at beginning of year	12,477,292	2,799,552
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,174,101	$ 12,477,292
STATEMENT OF NET ASSETS CASH		
Unrestricted	$ 1,800,924	$ 6,057,446
Restricted	2,373,177	6,419,846
	$ 4,174,101	$ 12,477,292

The accompanying notes are an integral part of the financial statements.

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended June 30	
	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 210,029	$ (59,957)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	2,804,084	2,349,507
Amortization	16,642	16,642
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(256,703)	32,181
Prepaid expenses	(75,058)	(14,720)
Increase (decrease) in:		
Accounts payable	(6,463)	(415)
Compensated absences payable	22,705	25,447
Deferred revenue	(11,779)	5,028
Net cash provided by operating activities	$ 2,703,457	$ 2,353,713

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Gallatin Airport Authority was established to assume ownership and responsibility for the improvements, equipment and operation of Gallatin Field with all powers granted to municipal airport authorities by state law and resolved in Resolution 1553. The powers and duties of the Airport are vested in the Board of Commissioners consisting of five members appointed by the Board of County Commissioners of Gallatin County. Pursuant to said Resolution No. 1553, the Airport has assumed ownership and responsibility for the improvements, equipment and operation of Gallatin Field, and all right, title and interest of the City of Bozeman, Gallatin County, and the Airport Board in and to Gallatin Field have been granted, conveyed, and transferred to the Gallatin Field Airport.

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

Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

A) Reporting Entity

GASB Statement No. 14 provides authoritative guidance for determination of financial reporting entities. The application of this guidance results in Gallatin Airport Authority not being considered a component unit of Gallatin County (the primary government).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Basis of Accounting/Measurement Focus

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Government Accounting Standards Board (GASB). The Airport has adopted GASB Statement No. 34, *Basis Financial Statements and Management's Discussion and Analysis - for State and Local Governments* (GASB 34) as amended by GASB Statement No. 37 and applied those standards on a retroactive basis. GASB 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- *Restricted:*
  Nonexpendable - Net assets subject to externally imposed stipulations that the Airport Authority maintains them permanently.

  Expendable - Net assets whose use by the Airport is subject to externally imposed stipulations that can be fulfilled by actions of the Airport pursuant to those stipulations or that expire by the passage of time.

- *Unrestricted:* Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

The presentation of contributed capital in financial statements represented grants, customer facility charges, and passenger facility charges (PFC) revenue received by the Airport primarily associated with capital construction.

The accompanying financial statements have been prepared on the accrual basis. The Airport reports as a Business Type Activity, as defined by GASB Statement No. 34. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Basis of Accounting/Measurement Focus (Continued)

To ensure observance of limitations and restrictions placed on the use of resources by the bond indenture, the accompanying financial statements are presented in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. The operation of each fund is accounted for by providing a separate set of self balancing accounts which are comprised of each fund's assets, liabilities, net assets, revenue and expense. The Airport's accounts are classified as one proprietary fund; that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Airport is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expense incurred as appropriate for capital maintenance, public policy, management control, accountability and other purposes.

The Airport's revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Current liabilities include those obligations to be liquidated with current assets.

Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Capital, grants, financing, or investing related transactions are reported as non-operating revenues. All expenses related to operating the Airport are reported as operating expenses. Interest expense and financing costs are reported as non-operating.

C) Cash and Cash Equivalents

The Airport considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

D) Accounts Receivable

Accounts receivable represents unpaid billings to outside parties. Due to the nature of the receivables, primarily fees and leases, most are considered collectible. A provision for uncollectible receivables has been made to account for receivables outstanding longer than 90 days in the amount of $6,200 for 2011 and 2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Inventories

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

F) Fixed Assets, Depreciation and Amortization

Property, plant and equipment are stated at historical cost. Donated fixed assets are stated at their fair value on the date donated. Fixed assets are depreciated using the straight-line method. Estimated useful lives, in years, for depreciable assets are as follows:

Runways and Improvements	5 - 20 years
Buildings and Improvements	5 - 40 years
Equipment	3 - 20 years

G) Compensated Absences

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

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

H) Use of Estimates

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

I) Budgets

The non-legally binding budget is adopted each fiscal year for the enterprise fund. The budget is prepared in accordance with the basis of accounting utilized by that fund. The budget is adopted under a basis consistent with generally accepted accounting principles, except that depreciation and amortization are not considered.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) Bond Issuance Cost

Bond issuance costs for the 2009 revenue bonds are being amortized over the term of the bonds using the declining balance method based on the outstanding debt principal.

2. CASH AND INVESTMENTS

The Airport maintains a cash and investment pool for funds. Cash and investments may include cash and cash items; demand, time, savings, and fiscal agent deposits, investments in the State Short-Term Investment Pool (STIP); direct obligations of the United States Government and securities issued by agencies of the United States; and repurchase agreements as allowed by Montana Statute.

The following are deposit and investment risk disclosures:

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

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

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

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

2. CASH AND INVESTMENTS (Continued)

The composition of cash, cash equivalents and investments on June 30, 2011 and 2010, was as follows:

	2011		2010	
	Cost	Market Value	Cost	Market Value
Cash and Cash Equivalents				
Operating Account	$ 893,905	$ 893,905	$ (183,825)	$ (183,825)
Capital Account	907,019	907,019	6,241,271	6,241,271
	1,800,924	1,800,924	6,057,446	6,057,446
Other Assets - Restricted				
Operating Reserve Account	890,652	890,652	810,312	810,312
Construction Account	436,748	436,748	5,067,707	5,067,707
Renewal and Replacement Reserve Account	250,000	250,000	250,000	250,000
Debt Service Account	54,457	54,457	54,457	54,457
PFC Reserve Account	741,320	741,320	237,370	237,370
	2,373,177	2,373,177	6,419,846	6,419,846
	$ 4,174,101	$ 4,174,101	$ 12,477,292	$ 12,477,292
Investments				
Operating Investment Account	$ -	$ -	$ 7,420,603	$ 7,421,670
Debt Service Reserve Account	1,145,833	1,145,833	1,144,120	1,144,120
	$ 1,145,833	$ 1,145,833	$ 8,564,723	$ 8,565,790

The cash and investments should be considered 100% insured or collateralized, except for the investments in the State Short-Term Investment Pool (STIP).

The operating cash includes investment in STIP in the amount of $22,630 and $22,561 in 2011 and 2010, respectively. The investment in STIP includes asset-backed and variable rate interest securities. Asset-backed securities represents debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Asset-backed securities have less risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities. Variable rate interest securities pay a variable rate of interest until maturity. While variable-rate interest securities have credit risk identical to similar fixed-rate securities, their market risk (income) is non sensitive to interest rate changes. However, their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield. There are no legal risks that the Airport is aware of regarding any STIP investments. The investments in the STIP are reported at cost, which approximates market value.

2. CASH AND INVESTMENTS (Continued)

Investments at June 30, 2011 and 2010 consist entirely of certificates of deposit with First Interstate Bank whose term to maturity at date of acquisition exceeds three months. The Bank uses the certificate of deposit account registry service (CDARS) to purchases certificates of deposit for the Airport, which the Bank holds as a custodian for the Airport. The certificates of deposits are fully insured by the FDIC. All certificates of deposit mature on November 3, 2011.

3. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

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

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

Funding Policy

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

	Employer	Employee	State of Montana	Total
PERS - 2011	7.070%	6.9%	.1%	14.070%
PERS - 2010	7.070%	6.9%	.1%	14.070%
PERS - 2009	6.935%	6.9%	.1%	13.935%

The amounts contributed to the plan during the years ended June 30, 2011 and 2010, were equal to the required contribution. The amount contributed by both the Airport and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	Total Covered Payroll	Employer Contributions	Employee Contributions
2011	$ 1,650,669	$ 116,702	$ 113,896
2010	$ 1,479,410	$ 104,594	$ 102,079
2009	$ 1,433,600	$ 99,420	$ 98,918

4. PASSENGER FACILITY CHARGE PROGRAM

Under the authority of the Aviation Safety & Capacity Expansion Act of 1990 (November 5, 1990) and the guidelines of Part 158 of the Federal Aviation Administration (FAA) Regulations, Gallatin Airport Authority has been authorized to impose a Passenger Facility Charge (PFC). Gallatin Airport Authority was authorized to impose the PFC beginning August 1, 1993. The Airport will continue to impose the PFC until "the total net PFC revenue collected plus interest thereon equals the allowable cost of the approved projects."

The active PFC approved projects during the years ended June 30, 2011 and 2010 included PFC 09-04-C-00-BZN and PFC 09-05-C-00-BZN. The PFC project No.09-04-C-00-BZN effective March 1, 2009, authorized a charge of $4.50 per enplaned passenger and total project expenditures of $2,200,000. This project ended June 30, 2011. The PFC project No.09-05-C-00-BZN effective July 1, 2011, authorized a charge of $4.50 per enplaned passenger and total project expenditures of $29,000,000. This project expires March 1, 2029.

	2011	2010
Summary of PFC transactions:		
Sources:		
PFC collections cumulative to June 30	$ 12,532,741	$ 11,090,077
Interest earned	261,207	253,835
Total sources	12,793,948	11,343,912
Uses:		
Debt Service 1993 Revenue Bonds		
Principal	2,379,667	2,379,667
Interest	1,040,381	1,040,381
Debt Service 2009 Revenue Bonds		
Principal	-	-
Interest	1,052,839	399,353
	4,472,887	3,819,401
Cost of improvements	7,579,741	7,287,141
Total uses	12,052,628	11,106,542
PFC Reserve Account at June 30	$ 741,320	$ 237,370

4. PASSENGER FACILITY CHARGES (Continued)

PFC revenues collected within 45 days of year end are accrued. PFC revenues are recognized as capital contributions revenue. Although there is a lack of specific guidance in generally accepted accounting principles, this method has general acceptance.

5. CONSTRUCTION IN PROGRESS

Construction in progress consists of capital improvements associated with the continued expansion of the airport property.

6. FIXED ASSETS

	6/30/10	Additions	Disposals	6/30/11
Land	$ 9,951,856	$ -	$ -	$ 9,951,856
Runways & improvements	32,342,890	222,365	-	32,565,255
Buildings & equipment	28,079,194	441,326	-	28,520,520
Construction in progress	19,442,102	25,673,878	-	45,115,980
	89,816,042	26,337,569	-	116,153,611
Less accumulated depreciation	(28,943,454)	(2,804,084)	-	(31,747,538)
Net fixed assets	$ 60,872,588	$ 23,533,485	$ -	$ 84,406,073

	6/30/09	Additions	Disposals	6/30/10
Land	$ 9,951,856	$ -	$ -	$ 9,951,856
Runways & improvements	30,078,707	2,264,183	-	32,342,890
Buildings & equipment	24,545,126	3,534,068	-	28,079,194
Construction in progress	7,468,552	11,973,550	-	19,442,102
	72,044,241	17,771,801	-	89,816,042
Less accumulated depreciation	(26,593,947)	(2,349,507)	-	(28,943,454)
Net fixed assets	$ 45,450,294	$ 15,422,294	$ -	$ 60,872,588

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

7. NET ASSETS

Net assets consists of the following:

A. Invested in Capital Assets, Net of Related Debt consists of the following:

	2011	2010
OTHER ASSETS		
Intangible asset, net	$ 274,593	$ 291,235
Bond issue cost, net	287,550	314,647
	562,143	605,882
PROPERTY, PLANT AND EQUIPMENT		
Land	9,951,856	9,951,856
Runways and improvements	32,565,255	32,342,890
Buildings and equipment	28,520,520	28,079,194
Construction in progress	45,115,980	19,442,102
Accumulated depreciation	(31,747,538)	(28,943,454)
	84,406,073	60,872,588
LESS: LONG-TERM LIABILITIES		
Bonds payable for amount invested in capital assets	16,000,000	9,616,437
Invested in Capital Assets, Net of Related Debt	$ 68,968,216	$ 51,862,033

B. Restricted for Capital Projects and Debt Service consists of the following:

	2011	2010
CURRENT ASSETS		
Investments	$ 1,145,833	$ 1,144,120
Receivables		
Passenger facility charges	224,255	193,606
	1,370,088	1,337,726
OTHER ASSETS		
Restricted cash and cash equivalents	2,373,177	6,419,846
LESS: LONG-TERM LIABILITIES		
Bonds payable for future investment in capital assets	-	6,383,563
Restricted for Capital Projects and Debt Service	$ 3,743,265	$ 1,374,009

7. NET ASSETS (Continued)

C. Unrestricted Assets consists of the following:

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 1,800,924	$ 6,057,446
Investments	-	7,421,670
Receivables		
Customers, net	890,587	633,884
Grants	3,317,693	549,529
Prepaid expenses	145,071	70,013
	6,154,275	14,732,542
LESS: CURRENT LIABILITIES		
Payable from unrestricted assets		
Accounts payable	982	7,445
Compensated absences	217,115	194,410
Deferred revenue	38,121	49,900
Total Liabilities Payable from Unrestricted Assets	256,218	251,755
Unrestricted Net Assets	$ 5,898,057	$ 14,480,787

8. LEASE REVENUE

The Airport leases its property to commercial airlines, car rental companies, concessionaires, several fixed base operators who service the aviation industry, private hangar owners and the Federal Aviation Administration. These leases are non-cancelable operating leases.

8. LEASE REVENUE (Continued)

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

2012	$	2,829,526
2013	$	2,306,040
2014	$	1,541,699
2015	$	703,837
2016	$	170,706

Certain lease agreements, by their terms, require annual redetermination of the rental charge based on predetermined formulas. The minimum future rentals for these leases were determined using the rates in effect at June 30, 2011. The Airport also has several leases that require the lessee to remit a percentage of its revenue as the rental charge. Rental income under leases of this type include the minimum rental amounts in the above schedule.

9. CONTRIBUTED CAPITAL

Contributed capital consists of the following:

	2011	2010
Passenger Facility Charges	$ 1,473,313	$ 1,281,824
Customer Facility Charges	420,987	224,565
Grants	9,049,395	6,467,478
	$ 10,943,695	$ 7,973,867

10. RISK MANAGEMENT

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

11. RELATED PARTIES

Richard Roehm (Board Member) entered into a 10-year lease with the Airport on October 1, 1999. An option for a 10-year renewal was taken. Lease revenue for 2011 and 2010 was $538 per year. The lease was terminated January 1, 2011.

Steve Williamson (Board Member) as a member of Aircraft Condo Association, entered into a 20-year lease with the Airport on June 2, 1984. An option for a 10-year renewal was taken. Lease revenue for 2011 and 2010 was $2,484 and $2,046, respectively.

John McKenna (Board Member) and two unrelated parties entered into a 10-year lease with the Airport beginning May 1, 2001. Lease revenue for 2011 and 2010 was $999 per year.

Kevin Kelleher (Board Member) as a member of Sunnyside Storage Condo Association, entered into a 10-year lease with the Airport on March 1, 1996. An option for a 10-year renewal was taken. Lease revenue for 2011 and 2010 was $1,874 per year.

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

12. COMMITMENTS

The Airport has entered into an interlocal agreement with the City of Belgrade to participate in an operational analysis for an interstate interchange. The Airport has committed $300,000 to the analysis, if the project is stopped, the Airport will get two thirds back. If the project goes forward, the $300,000 will count towards the Airport's share. The Airport donated approximately $0 and $11,998 towards the project in 2011 and 2010, respectively.

The Airport has entered into an agreement with Gallatin County and the City of Belgrade to establish the roles, responsibilities and commitments relative to the planning, sequencing, costs, administration, design, construction and maintenance responsibilities necessary for the planning and construction of a new Interstate 90 interchange and connector roadways to be located in the vicinity of the Gallatin Field Airport. The Airport has committed funding not-to-exceed $3,000,000 excluding Right-of-Way valuations estimated at $934,800 and $300,000 previously committed to operational analysis.

13. 2009 REVENUE BONDS

On August 13, 2009, the Airport approved a resolution to issue revenue bonds (PFC supported) in the aggregate principal amount of up to $16,000,000, pursuant to Montana Code Annotated, Section 67-11-303, in order to provide funds to pay a portion of the costs to expand, improve, construct, reconstruct and equip the airline terminal building; fund the Debt Service Reserve Account; and pay all or a portion of the costs of issuing the bonds. Maturity dates will begin June 1, 2013 and end June 1, 2034. Interest rates on the bonds range from 3.0% to 4.7% depending on the maturity date and is payable on June 1, 2010, and semi annually thereafter until their respective maturity or prior redemption, whichever occurs first. The bonds are secured by a first lien upon the net revenues of the Airport, and by a pledge of the passenger facility charges of the Airport.

13. 2009 REVENUE BONDS (Continued)

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

Fiscal Year	Principal Amount	Interest Rate	Interest Amount	Total Principal and Interest
2012	-	3.000	653,486	653,486
2013	490,000	3.000	653,486	1,143,486
2014	505,000	3.000	638,786	1,143,786
2015	520,000	3.000	623,636	1,143,636
2016	535,000	3.000	608,036	1,143,036
2017	550,000	3.200	591,986	1,141,986
2018	565,000	3.400	574,386	1,139,386
2019	585,000	3.500	555,176	1,140,176
2020	605,000	3.625	534,702	1,139,702
2021	630,000	3.750	512,770	1,142,770
2022	650,000	3.850	489,145	1,139,145
2023	680,000	3.950	464,120	1,144,120
2024	705,000	4.000	437,260	1,142,260
2029	4,000,000	4.375	1,710,614	5,710,614
2034	4,980,000	4.700	723,800	5,703,800
Total	$ 16,000,000		$ 9,771,389	$ 25,771,389

The bonds scheduled to mature on June 1, 2029 and 2034 (the "term bonds"), are subject to mandatory sinking fund redemption in $5,000 principal amounts selected by lot or other manner deemed fair by the Registrar within such maturity, at a redemption price of par plus accrued interest to the date of redemption without premium, on June 1 in the principal amounts as follows:

Mandatory Sinking Fund Redemption Date	Principal Amount
June 1, 2025	$ 730,000
June 1, 2026	765,000
June 1, 2027	800,000
June 1, 2028	835,000
June 1, 2029	870,000
	$ 4,000,000
June 1, 2030	$ 905,000
June 1, 2031	950,000
June 1, 2032	995,000
June 1, 2033	1,040,000
June 1, 2034	1,090,000
	$ 4,980,000

14. RESTRICTED BOND CASH AND INVESTMENT ACCOUNTS

The following discloses the restricted bond cash and investment accounts by bond account:

	Fair Value 2011	Fair Value 2010
Debt Service Account	$ 54,457	54,457
Debt Service Reserve Fund	1,145,833	1,144,120
	$ 1,200,290	$ 1,198,577

15. RECLASSIFICATIONS

Certain amounts in the fiscal year 2010 financial statements have been reclassified to conform to the fiscal year 2011 presentation.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 1, 2011, the date on which the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

C. SUPPLEMENTAL INFORMATION

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF IN-FORCE INSURANCE
June 30, 2011

Insurer	Coverage	Amount	Expires	Annual Premium
Continental Western Group	Commercial Buildings	$ 66,991,641	8/10/11	$ 30,638
Cincinnati Insurance	Commercial Auto Inland Marine Boilers and Machinery (included in property)	$ 3,000,000 $ 1,918,712	8/10/11	$ 11,563
Cincinnati Insurance	Public Employees Crime Policy	$ 50,000	8/10/11	$ 400
Old Republic	Directors & Officers Liability and Employment Practices Liability	$ 1,000,000	8/10/11	$ 3,750
ACE Property & Casualty	Airport Liability	$ 30,000,000	8/10/11	$ 9,500
Indian Harbor Insurance	Law Enforcement Liability	$ 2,000,000	8/10/11	$ 5,086

Refer to report of independent public accountants.

PART III

REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AS REQUIRED BY U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

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

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

We have audited the financial statements of the business-type activities of Gallatin Airport Authority, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 1, 2011. 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Gallatin Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gallatin Airport Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gallatin Airport Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 2011-1.

A significant deficiency is a deficiency, or 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gallatin Airport Authority's financial statements are free of 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 audits 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*.

This report is intended solely for the information and the use of the Board of Commissioners, management, the State of Montana, and federal awarding agencies and pass-though entities and is not intended and should not be used by anyone other than these specified parties.

Junkermier, Clark, Campanella, Stevens, P.C.

Bozeman, Montana
November 1, 2011

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Compliance

We have audited Gallatin Airport Authority's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gallatin Airport Authority's major federal programs for the year ended June 30, 2011. Gallatin Airport Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Gallatin Airport Authority's management. Our responsibility is to express an opinion on Gallatin Airport Authority's compliance based on our audit.

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 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 Gallatin Airport 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. Our audit does not provide a legal determination on Gallatin Airport Authority's compliance with those requirements.

In our opinion, Gallatin Airport Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The management of Gallatin Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Gallatin Airport Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance , 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 Gallatin Airport 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and the use of the Commissioners and management of Gallatin Airport Authority, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Junkermier, Clark, Campanella, Stevens, P.C.

Bozeman, Montana
November 1, 2011

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, AS REQUIRED BY OMB CIRCULAR A-133
For the Year Ended June 30, 2011

Financial Statements

Type of auditors' report issued	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	yes
Significant deficiencies identified not considered to be material weakness?	none reported
Non-compliance material to financial statements noted?	no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	none
Significant deficiencies identified not considered to be material weakness?	none reported
Type of auditor's report issued on compliance for major programs	unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	no

Identification of major programs:

Airport Improvement Program CFDA 20.106
TSA Airport Checked Baggage Inspection Program (ARRA) CFDA 97.117

Dollar threshold used to distinguish between Type A and Type B	$300,000
Auditee qualified as low-risk auditee?	yes

The accompanying notes are an integral part of the financial statements.

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS,
AS REQUIRED BY OMB CIRCULAR A-133
For the Year Ended June 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT

2010-1 - Accounts Receivable Adjustment

Condition - Accounts Receivable and Standard Parking Revenue were overstated.

Criteria - Internal controls should be in place that provide reasonable assurance that errors will be prevented or detected and corrected in a timely manner.

Cause - Errors in recording Accounts Receivable and Standard Parking Revenue and insufficient review of these accounts during the closing process.

Effect - Accounts Receivable and Standard Parking Revenue were overstated by approximately $102,523.

Recommendation - The Airport should establish and implement procedures to ensure receivables and revenue are properly recorded in the financial records and to provide reasonable assurance that errors will be prevented or detected and corrected in a timely manner.

Management Corrective Action Plan - Management agrees with the findings and will implement the recommended procedures.

FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

FEDERAL SOURCE *PASS-THOUGH SOURCE* **Program Name**	**CFDA NUMBER**	**AMOUNT AWARDED**	**FEDERAL EXPENDITURES**
U.S. DEPT. OF TRANSPORTATION *Federal Aviation Administration - Airport Improvement Program*			
Project No. 3-30-0010-33	20.106	2,455,379	836,688
Project No. 3-30-0010-34	20.106	5,910,336	1,728,627
Project No. 3-30-0010-35	20.106	1,370,999	72,169
Project No. 3-30-0010-36	20.106	1,298,830	1,298,830
Project No. 3-30-0010-37	20.106	1,185,053	1,185,053
Project No. 3-30-0010-39	20.106	2,263,608	2,022,800
U.S. DEPARTMENT OF HOMELAND SECURITY			
TSA Airport Checked Baggage Inspection Program (ARRA)	97.117	3,266,866	1,481,831
U.S. DEPARTMENT OF JUSTICE			
Bulletproof Vest Partnership Program	16.607	2,938	838
TOTAL FEDERAL AWARDS		$ 17,754,009	$ 8,626,836

Notes to Schedule of Federal Awards:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

This schedule was prepared on the same basis of accounting as the financial statements (See Note 1)

The schedule of expenditures of federal awards for the year ended June 30, 2011 has been subjected to the applicable compliance testing requirements prescribed by OMB Circular A-133.

The accompanying notes are an integral part of the financial statements.

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

FEDERAL SOURCE *PASS-THOUGH SOURCE* **Program Name**	**CFDA NUMBER**	**AMOUNT AWARDED**	**FEDERAL EXPENDITURES**
U.S. DEPT. OF TRANSPORTATION			
Federal Aviation Administration - Airport Improvement Program			
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-33	20.106	2,157,830	1,502,246
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-34	20.106	5,161,194	3,664,303
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-35	20.106	1,298,830	1,298,830
U.S. DEPARTMENT OF JUSTICE			
Bulletproof Vest Partnership Program	16.607	2,100	2,100
TOTAL FEDERAL AWARDS		$ 8,619,954	$ 6,467,479

Notes to Schedule of Federal Awards:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

This schedule was prepared on the same basis of accounting as the financial statements (See Note 1)

The schedule of expenditures of federal awards for the year ended June 30, 2010 has been subjected to the applicable compliance testing requirements prescribed by OMB Circular A-133.

PART IV

REPORT OF INDEPENDENT AUDITORS
AS REQUIRED BY PASSENGER FACILITY CHARGE (PFC) PROGRAM

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Certified Public Accountants and Business Advisors

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

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Compliance

We have audited the compliance of Gallatin Airport Authority, with the compliance requirements described in 14 CFR Part 158 that are applicable to passenger facility charges for the year ended June 30, 2011. Compliance with the requirements of laws and regulations applicable to passenger facility charges is the responsibility of Gallatin Airport Authority's management. Our responsibility is to express an opinion on Gallatin Airport Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards in 14 CFR Part 158, "Passenger Facility Charges." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the program facility charge program occurred. An audit includes examining, on a test basis, evidence about Gallatin Airport 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. Our audit does not provide a legal determination on Gallatin Airport Authority's compliance with these requirements.

In our opinion, Gallatin Airport Authority, complied, in all material respects, with the requirements referred to above that are applicable to passenger facility charge programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Gallatin Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to passenger facility charges. In planning and performing our audits, we considered Gallatin Airport Authority's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the standards in 14 CFR Part 158, "Passenger Facility Charges."

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, management of the Gallatin Airport Authority, the Federal Aviation Administration, and collecting carriers, and its not intended to be and should not be used by anyone other than these specified parties.

Junkermier, Clark, Campanella, Stevens, P.C.

Bozeman, MT
November 1, 2011