holmes & turner

Certified Public Accountants

GALLATIN AIRPORT AUTHORITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

GALLATIN AIRPORT AUTHORITY

TABLE OF CONTENTS

INTRODUCTORY SECTION

GALLATIN AIRPORT AUTHORITY
JUNE 30, 2013

ORGANIZATION

BOARD OF COMMISSIONERS

John McKenna, Jr.	Chair
Kevin Kelleher	Vice Chair
Ted Mathis	Secretary
Carl Lehrkind IV	Member
Kendall Switzer	Member

AIRPORT DIRECTOR

Brian Sprenger, A.A.E.

DEPUTY AIRPORT DIRECTOR

Scott Humphrey, A.A.E.

OFFICE MANAGER

Cherie Ferguson, C.M.

FINANCIAL SECTION

holmes & turner

14th Street, Suite 201
Montana 59715
527-4285
Fax (406) 586-3111

Certified Public Accountants
Members of CPA Associates International, Inc.

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the major fund of Gallatin Airport Authority (Airport), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Gallatin Airport Authority, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gallatin Airport Authority's basic financial statements. The accompanying schedules of in-force insurance and passenger facility charges collected are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The financial statements of the prior period were audited by a predecessor auditor who expressed an unqualified opinion dated December 4, 2012.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2013, on our consideration of Gallatin Airport Authority s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gallatin Airport Authority's internal control over financial reporting and compliance.

Holmes & Turner

November 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

BZN Bozeman Yellowstone
INTERNATIONAL AIRPORT

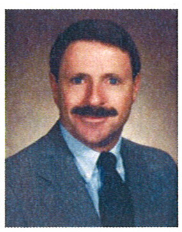
Gallatin Airport Authority Year in Review FY 2013

Annual Report FY 2013

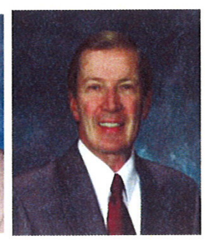
Inside this issue:

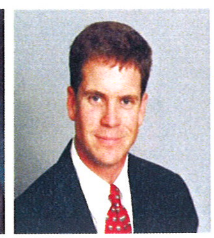
Introduction—The management of the Gallatin Airport Authority has prepared the following discussion and analysis of the financial performance and activity of the Gallatin Airport Authority for the fiscal year ended June 30, 2013. The discussion and analysis should be read in conjunction with the entire 2013 fiscal year annual audit. This discussion and analysis consists of the following financial statements so that the reader can understand the financial condition of the Gallatin Airport Authority:

- Activity Highlights – Detail of activities at Bozeman Yellowstone International Airport that affect the financial performance of the Gallatin Airport Authority
- Financial Highlights – Detail of the FY 2013 Gallatin Airport Authority income and expenditures
- Changes in Net Position – Detail of activities that contributed to the changes in net assets during FY 2013


John McKenna, Jr.
Chair


Kevin Kelleher
Vice Chair


Ted Mathis
Secretary


Carl Lehrkind IV


Kendall Switzer
Member

Mission:

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

Airport Staff

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

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

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

Chief, Public Safety:
Bill Dove

Office Manager:
Cherie Ferguson, C.M.

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
Shaun Dudley
Jim Gundersen
James Sullivan

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

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

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

Twenty-five years ago, in 1987, Gallatin Field (BZN), a small airport in Southwest Montana enplaned a record 118,715 passengers exceeding the previous record set the year before. Despite the record enplanements, Gallatin Field ranked as the number four airport in Montana behind Billings, Great Falls and Missoula. In fact, the 118,715 enplanements were just 40% of the 296,292 enplanements at Billings that year.

However, the strong growth that occurred in 1987 was an indicator of what was to come. Fast forward to the fiscal year ended June, 30, 2013; the airport's name has changed to Bozeman Yellowstone International Airport (BZN), which more accurately depicts the airport's importance in the region, and enplanements increased to 440,203 or 270% growth since 1987. No longer the small airport it once was, BZN surpassed all other airports in Montana and ranks as the 121st busiest airport in the nation.

For fiscal year 2013, a total of 877,246 passengers (enplanements and deplanements) traveled through BZN, up 7.2% over the previous record set in FY 2012. Nearly 26% of all passengers flying into or out of Montana now fly through BZN compared to 14% in 1987. The significant increase we have seen would not have been possible without the many partnerships we have forged to develop our airport for the benefit of the community. We have actively engaged in partnerships with many entities including the Big Sky/Yellowstone Club area, Yellowstone Country, Chambers of Commerce, and Convention and Visitor's Bureaus in Bozeman, Belgrade, Big Sky and West Yellowstone, Montana State University (including Montana Public Broadcasting System, the Museum of the Rockies and Gallatin College), the Cities of Bozeman and Belgrade, Gallatin County, the State of Montana, the Yellowstone Association and the Yellowstone Park Foundation just to name a few. Examples of these partnerships include air service development, a U.S. Customs User Fee facility, airport access road development, reciprocal marketing agreements and the first airport based National Park store/educational display in the nation among the many airport developments.

The success of our New York service is a high profile example of the benefits of partnerships. In conjunction with over fifteen entities from West Yellowstone to Big Sky/Yellowstone Club to the Bozeman area, we leveraged a Small Community Air Service Development Program (SCASDP) grant with 40% matching local commitments to develop the first and only non-stop service to New York/Newark from Montana. The $950,000 grant would not have been possible without the unprecedented local match, which permitted us to pursue and inaugurate non-stop service to New York/Newark via United Airlines. During the first two seasons, the community along with the SCASDP grant committed minimum revenue guarantees of over $1.4 million. To date, we have paid out only 23% of the guarantee. With this success, we nearly doubled service for summer 2013 and we are proud to report that New York service has become profitable and no guarantees were required this past summer. The willingness by all the partners to take a calculated risk has paid off and has generated interest by Delta Air Lines in considering adding New York (JFK) service from BZN.

Director's Report Continued

Another example of partnering is the East Belgrade I-90 Interchange that will directly serve our airport. This project that originated over a decade ago overcame significant hurdles in funding through a partnership between the Airport, the City of Belgrade and Gallatin County in conjunction with the Montana Department of Transportation and the Federal Highway Administration. This $40 million project would not have happened without the dedication, leadership and partnering of the Gallatin County Commission, the Airport Board, the City of Belgrade Commission and staff of these entities. Altogether, the Gallatin Airport Authority has committed $3.5 million towards the project (including land easements) and another $4 million in road improvements on airport land to tie into the Interchange road system. Additionally, $2 million in Urban Funds were contributed by the City of Belgrade, $2 million was received from Gallatin County, and Knife River and a major land owner along the corridor donated land for a total local commitment exceeding $12 million. This is by far the most significant local funding for an Interchange project ever in the State of Montana.

One final example of what can be achieved through partnerships is the improvement in air traffic control (ATC) at BZN that have occurred over the past fifteen years. Since 1998 we have added an Air Traffic Control Tower, increased ATC hours of operation, added the first locally funded Air Traffic Control Beacon Interrogator (ATCBI-6) Radar, a radar display inside the tower and new arrival and departure procedures. In October of 2013, the latest improvement was added; Terminal Radar Approach Control handled by "Big Sky Approach" out of Boise. Through partnering with the Federal Aviation Administration (FAA) and providing local Gallatin Airport Authority funding, we have been able to expedite these improvements much quicker than if we had waited for the FAA to find funding within their limited budgets. Altogether, we have contributed over $4 million toward these improvements and countless hours working with Senators Baucus and Tester and FAA staff to justify, construct and implement these improvements that bring our fast growing airport to the level of Air Traffic Control service our customers deserve. No other airport that we are aware of has done so much to improve Air Traffic Control services.

A significant factor in many of these partnerships is that we have the financial wherewithal to participate in, and often drive, the developments. This is possible because of decades of conservative financial management and financial performance. This year, total operating revenue was up 3.8% to $7,284,748. Operating expenses were up 6.9% to $3,997,362 (less depreciation and amortization) resulting in operating income of $3,287,386 down 0.1%. Cash increased from $9,275,306 in FY 2012 to $14,825,297 in FY 2013 which gives us the flexibility to continue our long term capital improvement plan as well as pay off bonds used for terminal development.

The dedicated and knowledgeable members of the Airport Board and the exceptional 31 professionals on airport staff are what makes all this work. The capabilities of our staff are evident daily and they have been recognized this past year with a perfect financial audit, a perfect FAA certification inspection and a perfect TSA compliance inspection. Challenges are common in this industry and we expect next year to be no exception. We believe our financial stability and experienced staff are in position to address these challenges while providing excellent customer service each and every day. We are proud to serve the flying public and hope that this report will provide valuable information on the status of your airport. We welcome and value your input on how we can better serve you at Bozeman Yellowstone International Airport.

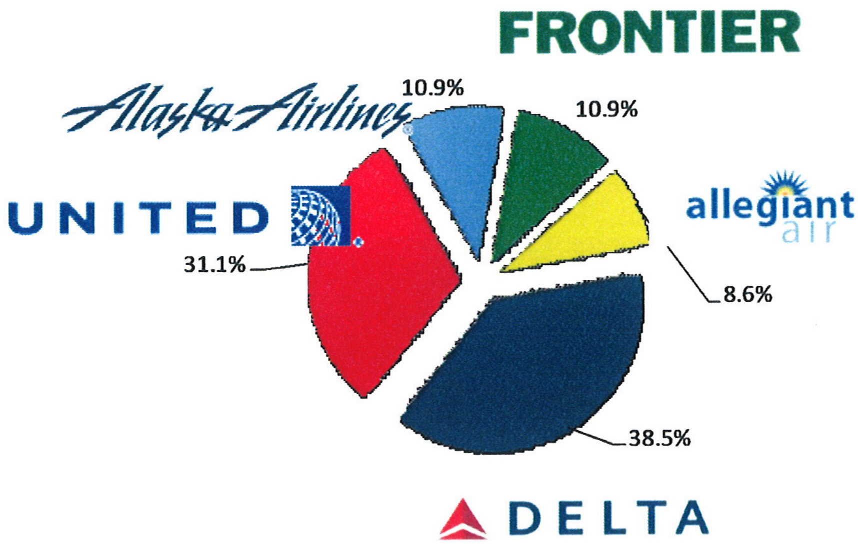
ENPLANEMENTS 7.8%

During FY 2013, enplanements increased 7.8% as 440,203 passengers boarded flights and 877,246 passengers passed through the terminal. Seasonal New York service increased to twice-weekly during the summer and Alaska Airlines returned with seasonal service direct to Portland. Outbound seats increased 6.7% to 513,840 while airline load factor increased .07% to 85.3%. Airlines operated 6,379 flights in FY 2013 compared to 6,261 flights in FY 2012. Average seats per departure increased to 80.5 seats from 77 seats in FY 2012 as airlines retired 50 seat jets and replaced with larger aircraft.

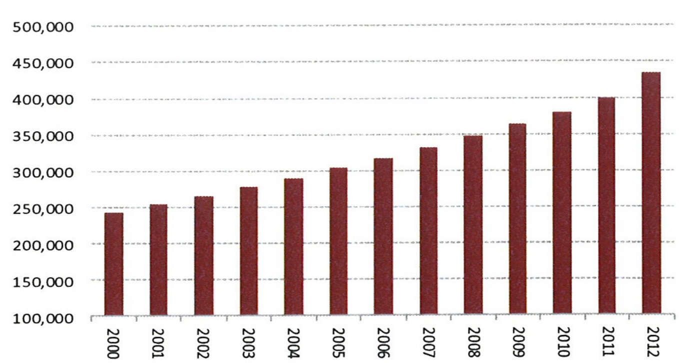
Year Round Non-Stop Destinations:
Denver
Minneapolis
Chicago
Seattle
Salt Lake City
Las Vegas
Phoenix / Mesa

Seasonal Non-Stop Destinations:
Atlanta
New York / New Jersey
San Francisco
Los Angeles
Portland

BZN MARKET SHARE



REVENUE ENPLANEMENTS

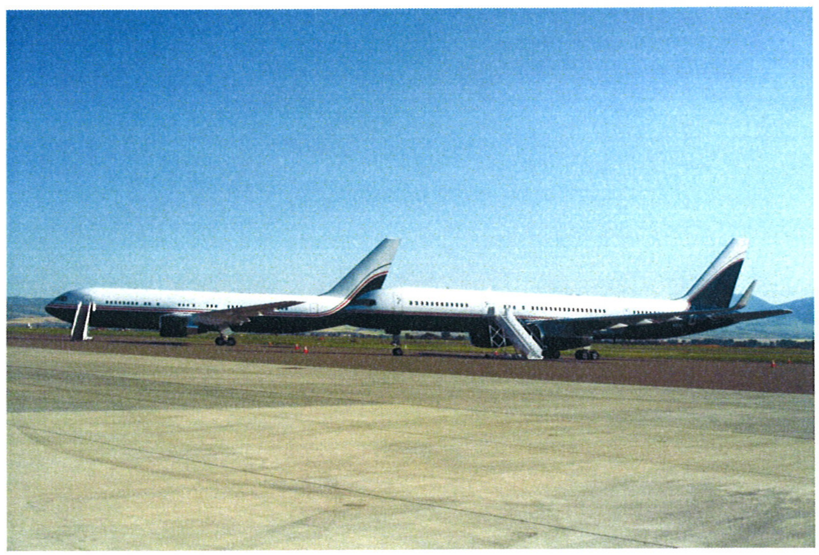


Airline	FY 2013 Seats	FY 2013 Revenue Enplanements	FY 2013 Revenue Load Factor %
Delta	195,320	169,026	86.5
United	159,696	136,568	85.5
Frontier	58,989	47,583	80.7
Alaska	58,534	47,701	81.5
Allegiant	41,301	37,661	91.2

Tower Operations (7.0%)

Tower operations decreased 7.0% with 76,835 operations. Tower operations are defined as a departure or arrival. Air carrier operations increased 10.1%. Air Taxi operations as defined by the FAA (aircraft designed to have a maximum seating capacity of 60 seats or less) decreased 2.6% as airlines transitioned from 50 seat regional jets to 66 seat and larger jets. Itinerant general aviation operations (visiting aircraft not based at BZN) saw a decrease of 1.8%. Local general aviation decreased 14.7%. The decrease in general aviation activity continues to be driven by a weak economy, the price of Avgas, costs associated with certification and ownership, and aging of general aviation pilots.

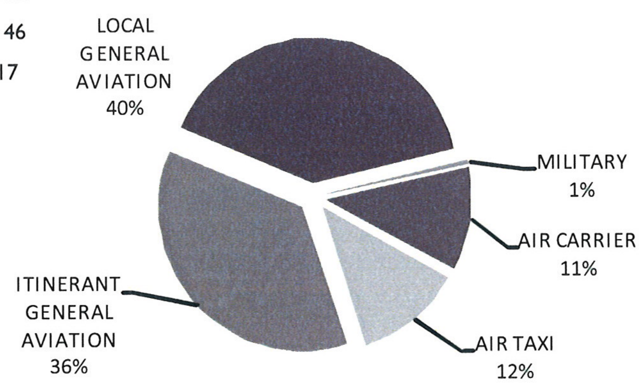
OPERATIONS	% CHANGE FROM FY 2012	FY 2013
AIR CARRIER	10.1	8,708
AIR TAXI	(2.6)	9,222
ITINERANT GENERAL AVIATION	(1.8)	27,875
LOCAL GENERAL AVIATION	(14.7)	30,768
MILITARY	(8.1)	262
Corporate Landings > 12,500 lbs	(0.5)	2,606



Fuel Flowage Income 5.9%

Fuel flowage income increased 5.9% to $116,616. Airline fuel sales increased 9.2%, non-airline Jet A increased 7.7% while general aviation Avgas sales increased 2.4%. Bozeman Yellowstone International Airport receives $.06 for every gallon pumped of Avgas and non-signatory airline and non-government Jet-A fuel.

Type of Fuel	% Change from FY2012	2013 Gallons Pumped
Jet A—Airlines	10.7	5,190,362
Jet A	7.1	1,863,146
Avgas	19.6	162,917



Cargo, Express & Mail 11.6%

Total cargo, express and air mail increased 11.6% to 4,416,940 lbs. in FY 2013. Part of the increase is attributed to FedEx using the Bozeman facility as a transfer station for ground operations. FedEx moved 1,976,500 lbs. of cargo by air, and transferred 1,278,000 lbs. of cargo by truck. The airport receives revenue from cargo operations through landing fees and rent paid by FedEx, UPS and the airlines.

Carrier	% Change from 2012	CY 2013 LBS Moved
FedEx	15.8	3,254,500
UPS	3.5	878,308
Airlines	(7.7)	284,132

Car Rental Concession Revenue 1.2%

Rental car revenue increased from $2,071,121 in FY 2012 to $2,095,095 in FY 2013. Revenue includes on and off-airport commission, space rent and rent for parking stalls. Transaction days (the number of days a vehicle is rented) increased 12.7% from 333,232 days in FY 2012 to 375,877 days in FY 2013. The average cost per-day of a rental car decreased 11.3% to $52.36 due to increased competition between brands. 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. Additionally, the airport has agreements with a number of smaller off-airport rental car agencies that generated $13,047 in commissions.

On-Airport Brand	Concession Fee FY2013	Market Share
Hertz	$690,477	35.3%
Alamo/National	$440,073	22.5%
Avis/Budget	$434,790	22.2%
Enterprise	$222,825	11.4%
Dollar/Thrifty	$169,522	8.7%

Parking Revenue 8.8%

Commission from parking operations increased 8.8% from $1,660,422 in FY 2012 to $1,806,959 in FY 2013. The airport pays a percentage of revenue to Standard Parking Inc. for management of parking operations. Management fees for FY 2013 equaled 15.0% of gross parking revenue or $277,611 This past summer, the Airport undertook a paving project that included increasing parking capacity to 1,325 stalls (960 economy stalls and 365 premium stalls). The Airport also refined its surface parking plan to build 400 additional economy stalls within the Airport loop road over the next five years.

Food & Retail Revenue 12.3%

Food and retail commission increased 12.2% from to $503,216 in FY 2012 to $564,993 in 2013. Gift shop commission increased 5.8% to $297,215 while the restaurant commission increased 20.4% to $267,778.

Concession per Revenue Enplanement (2.7)%

	FY 2012	FY 2013	Increase/Decrease
PASSENGER ENPLANEMENTS	408,199	440,203	7.8%
RENTAL CAR DAYS	333,232	375,877	12.8%
RENTAL CAR DAILY RATE	$ 59.03	$ 52.36	-11.3%
TOTAL CONCESSION FEES			
Car Rentals	$ 1,967,038	$ 1,968,269	0.1%
Food and Beverage	$ 228,356	$ 272,938	19.5%
Gift	$ 280,860	$ 297,215	5.8%
Ground Transportation	$ 64,800	$ 67,159	3.6%
Parking Lot	$ 1,660,421	$ 1,806,958	8.8%
TOTAL CONCESSION FEE REVENUE	**$ 4,201,477**	**$ 4,412,541**	**5.0%**
CONCESSION REVENUE/ENPLANEMENT			
Car Rentals	$ 4.82	$ 4.47	-7.2%
Food and Beverage	$ 0.56	$ 0.62	10.8%
Gift	$ 0.69	$ 0.68	-1.9%
Ground Transportation	$ 0.19	$ 0.18	-8.1%
Parking Lot	$ 4.07	$ 4.10	0.9%
TOTAL CONCESSION REVENUE/ENEPLANEMENT	**$ 10.33**	**$ 10.05**	**-2.7%**

CASH INCOME: UP 8.8% overall, net cash provided by operating and non-operating activities was up 8.8%. Cash receipts (operating) were down 3.6% while cash payments (operating) were up 15.1% due to maintenance expense, outside contracts as a result of expired warranties with mechanical systems in the terminal, attorney fees tied to on-going litigation and costs associated with our customs facility.

Airside Income: Landing fees increased 2.8% to $571,021; landed weight increased while landing rates remained at $1.11 per thousand pounds for commercial gross landed weight. General aviation fees (rents, tie down fees, landing fees, fuel flowage fees) increased 0.9% to $474,743. Airside income is used to offset the cost for maintaining runways, taxiways, signage, utilities, the cost of snow removal, Airport Rescue and Fire Fighting and a portion of Public Safety.

Landside Income: Terminal building rents, commissions, and advertising fees were up 7.0% to $1,683,869. Commissions from parking operations, ground transportation and car rentals were up 4.4% to $3,849,060.

Non-Operating & Investment Income: Up 93.6% mainly due to maturity of outstanding investments; in FY 2013, the Airport cashed CD's and transferred proceeds into operating accounts.

FY 2013 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 12.6% better than budget while operating expenses were 2.4% under budget. Grant income was 30.0% below budget due to the success of the Small Community Air Service Development Program (SCASDP) supporting BZN-EWR service. The Airport accounted for the entire grant, including the community portion ($1,420,000), in the FY 2013 budget. Air service between BZN and EWR was self-supporting this past summer requiring a withdraw of just $88,576 for winter service.

Statement of Cash Flows	FY2012	FY2013
Cash Income	$7,374,859	$7,106,593
Cash Payments	$(3,621,692)	$(4,167,193)
Net Cash Provided by Operations	**$3,753,167**	**$2,939,400**
Cash From Non-Operating Activities		
Net Purchases Property, Plant & Equipment	$(5,169,833)	$(784,655)
PFC Receipts	$1,505,714	$1,683,650
CFC Receipts	$450,436	$582,553
Grants (AIP & SCASDP)	$4,347,500	$2,764,229
Payments to Other Agencies		$(1,886,625)
Contributed Capital	$560,687	-
Bond Principle and Interest Payments	$(653,486)	$(1,143,486)
Net Cash Provided by Non-Operating Activities	**$1,041,018**	**$1,215,666**
Investments Sold and Reclassified (CDs)		$1,125,881
Investments Purchased (CDs)	$(2,803)	-
Interest Received	$309,823	$269,044
Net Cash Provided by Investing	**$307,020**	**$1,394,925**
Cash and Cash Equivalents at Beginning of the Year	$4,174,101	$9,275,306
Cash and Cash Equivalents at End of the Year	$9,275,306	$14,825,297
Net Increase (Decrease) in Cash	**$5,101,205**	**$5,549,991**

Actual to Budget Comparison	FY 2013 Budget	FY 2013 Actual
Operating Revenue	$6,471,874	$7,284,748
Non-Operating Revenue	$181,636	$269,044
Grants	$4,216,709	$2,759,267
PFC Income	$1,400,000	$1,696,972
CFC Revenue	$478,365	$582,553
Capital Improvement Fund	$665,093	-
Total Income (Loss)	**$13,529,758**	**$12,782,504**
Total Operating Expense (not including Depreciation or Amortization)	$4,094,511	$3,997,362
Capital Expenditures (including Debt Service)	$9,435,247	$6,782,387
Total Expenditures	**$13,529,758**	**$10,779,749**

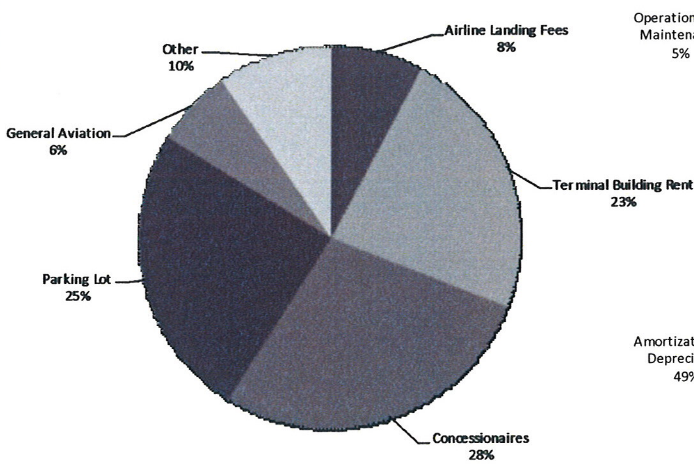
Statement of Net Position FY 2013: Provides insight into the financial position of the Gallatin Airport Authority at the end of the fiscal year 2013. The statement includes all assets and liabilities and indicates the current financial health of the Gallatin Airport Authority. Total assets increased $1,968,440 to $103,321,277 with final reimbursements/completion of the terminal project. A summary comparison to the right includes the Gallatin Airport Authority's position, liabilities and net position as of June 30, 2012 and June 30, 2013.

(1) Airport Master Plan, Bond Issuance Cost.

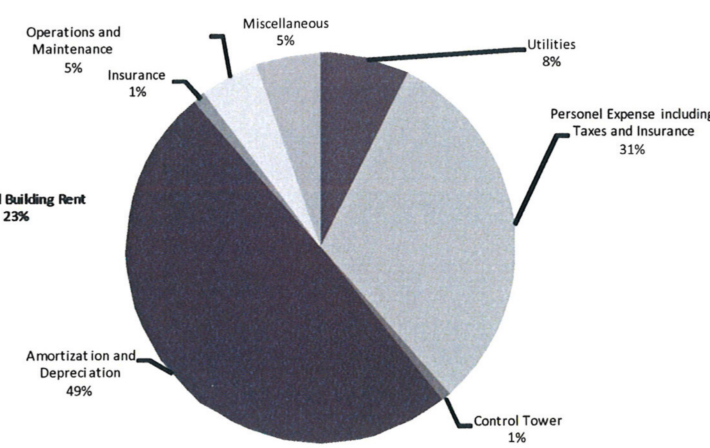
Statement of Net Position	FY2012	FY2013
Cash & Equivalents	$6,404,065	$11,395,558
Investments	$1,148,636	$22,755
Restricted Cash and Equivalents	$2,871,241	$3,429,739
Receivable/Prepaid Expense	$3,978,140	$4,590,505
Property, Plant & Equipment (including Accumulated Depreciation)	$86,432,352	$83,408,057
Other Assets (1)	$518,403	$474,663
Total Assets	**$101,352,837**	**$103,321,277**
Current Liabilities	$1,278,550	$1,159,444
Long-Term Liabilities 2009 Bonds	$15,540,000	$15,005,000
Total Liabilities	**$16,818,550**	**$16,164,444**
Net Position Invested in Capital	$70,950,755	$68,372,720
Net Position - Restricted	$4,321,487	$3,744,671
Net Position—Unrestricted	$9,262,045	$15,039,442
Total Net Position	**$84,534,287**	**$87,156,832**
Total Liabilities & Net Position	**$101,352,837**	**$103,321,277**

Changes in Net Assets	FY2012	FY2013
Operating Revenue	$7,020,641	$7,284,748
Operating Expense (including Depreciation and Amortization)	$(6,891,502)	$(7,822,955)
Operating Income	**$129,139**	**$(538,206)**
Non-Operating Income (Expense)	$(375,885)	$(2,298,164)
Capital Contributions	$6,171,495	$5,458,916
Increase in Net Position	**$5,924,749**	**$2,622,545**

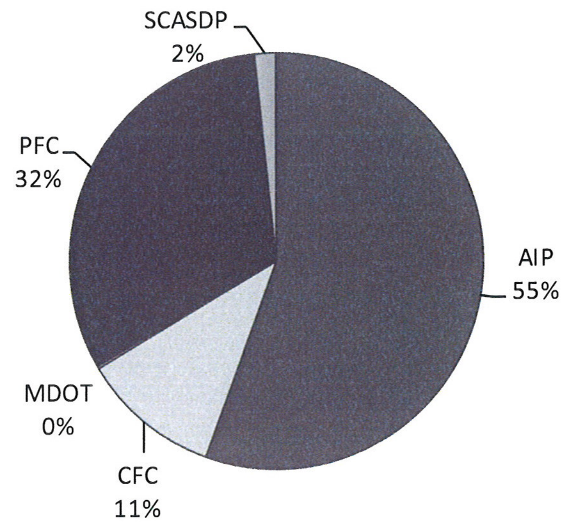
Operating Revenue



Operating Expense



Sources of Capital



Airport Improvement Plan **(AIP)** - The federal government collects various aviation user fees such as airline ticket tax, a tax on air freight, and taxes on aviation fuel sales and parts. Additionally, certain projects are eligible for funding from discretionary funds. Congress appropriates a portion of these user fees back to the airport system through AIP entitlements and discretionary grants. The airport received $2,967,621 in FY 2013 covering multiple grants for repayment to the Airport 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.

Small Community Air Service Development Program (**SCASDP) -** grant program designed to help small communities address air service and airfare issues, is managed by the Associate Director, Small Community Air Service Development Program, under the Department of Transportation. In 2011, the Airport was awarded a $950,000 grant to support BZN to New York Service. In FY 2013, the airport withdrew $88,576 of the grant.

The Montana Department of Transportation **(MDOT)**, through the Montana Department of Aeronautics, provides commercial service airports with a yearly Pavement Preservation Grant from a portion of airline gas tax revenues generated within the state of Montana. Grant money received under this program must be utilized specifically for pavement preservation projects that have a direct impact on pavements utilized by scheduled airline passenger service. The Airport received $11,500 in FY 2013

Passenger Facility Charges **(PFC)** - Bozeman Yellowstone International Airport receives $4.50 from each enplaned revenue passenger less an airline handling fee of $0.11. Passenger Facility Charges are used for capital improvement projects. These capital projects are restricted to projects approved by the FAA in consultation with the airlines for the benefit of the passengers. The majority of the long-term PFC revenue ($1,696,972in FY 2013) will be used to pay back the Revenue Bond used for the terminal project.

Customer Facility Charge **(CFC)** - The airport instituted a $2.75 customer facility charge in 2009 to build and maintain the consolidated rental car facility. In the same manner as a PFC, the airport, in consultation with the rental car agencies, agreed to levy a user fee to fund and maintain the $3.5 million dollar facility. In FY 2013, the airport received $582,553 in CFC revenue for capital improvements.

GAA Bond Reporting

Historical Total Passengers

Year	Enplanments	Deplanements	Total	Growth
FY2013	440,203	437,043	877,246	7.2%
FY2012	408,199	409,910	818,109	6.1%
FY 2011	385,992	385,157	771,149	5.9%
CY 2010	365,210	362,838	728,048	6.5%
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%

(FY) Airline Cost Per Enplanement

Year	Total Landing Fees	Airline Terminal Rents	Total Cost (Airline Payments)	Enplaned Passengers	Cost per En-planed Passenger
2013	571,021	791,645	1,362,666	440,203	$3.10
2012	555,505	775,877	1,331,382	408,199	$3.26
2011	521,056	726,561	1,247,617	385,992	$3.23
2010	466,433	682,649	1,149,082	342,714	$3.35
2009	477,578	681,916	1,159,494	347,051	$3.34
2008	524,409	652,491	1,176,900	342,754	$3.43
2007	464,372	611,815	1,076,187	326,198	$3.30
2006	429,718	599,854	1,029,572	328,870	$3.13

Historical Enplanements By Airline

	CY 2007		CY 2008		CY 2009		CY 2010		FY 2011		FY 2012		FY 2013	
Carrier	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share
Delta	99,813	29.7%	93,478	26.6%	82,093	24.0%	155,924	42.7%	157,796	40.9%	161,312	39.5%	169,026	38.4%
North-west	91,989	27.4%	92,542	26.3%	75,426	22.0%								
United	94,554	28.2%	95,352	27.1%	98,560	28.8%	119,649	32.8%	128,789	33.4%	123,676	30.3%	136,586	31.0%
Alaska	43,690	13.0%	39,626	11.3%	31,081	9.1%	37,070	10.2%	40,430	10.5%	43,906	10.8%	47,701	10.8%
Frontier	–	–	27,039	7.7%	42,528	12.4%	35,847	9.8%	34,916	9.0%	45,777	11.2%	47,583	10.8%
Allegiant	–	–	3,025	0.9%	12,894	3.8%	15,708	4.3%	23,000	6.0%	32,142	7.9%	37,661	8.6%
Big Sky	4,459	1.3%	152	0.0%	–									
Charters	771	0.2%	0	0.0%	132	0.0%	1,012	0.3%	1,061	0.3%	1,386	0.3%	1,664	0.4%
Totals	335,276	100.0%	351,214	100.0%	342,714	100.0%	365,210	100.0%	385,992	100.0%	408,199	100.0%	440,203	100.0%

Historical Fees and Rental Charges

Item	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Landing Fee (per each 1,000 lbs over 12,500 GLW)	$1.12	$1.05	$1.03	$1.12	$1.12	$1.15	$1.11	$1.11
Annual Terminal Rentals								
Finished (per sq ft per year)	$20.06	$20.98	$21.89	$21.06	$21.62	$22.27	$22.27	$22.27
Unfinished (per sq ft per year)	$12.04	$12.59	$12.97	$12.97	$12.97	$12.97	$12.97	$12.97
Jet Bridge	$10.00/ use	$10.00/ use	$10.00/ use	$10.00/ use	$10.00/ use	$10.00/ use	$10.00/Use	$10.00/use
Annual Storage Building Rent-al (per sq ft per year)	$12.04	$12.59	$12.97	$12.97	$12.97	$12.97	$12.97	$12.97

GAA Bond Reporting

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

	Audited 2007-2008	Audited 2008-2009	Audited 2009-2010	Audited 2010-2011	Audited 2011-2012	Audited 2012-2013
Operating Income						
Landing Fees	507,222	484,272	466,433	521,056	555,505	571,021
Terminal Building Rents	1,117,227	1,121,782	1,115,228	1,297,445	1,573,628	1,683,869
General Aviation	486,602	429,327	447,042	469,563	470,283	474,743
Concessions	1,572,063	1,515,584	1,552,861	1,952,099	2,030,407	2,042,101
Parking Lot	1,049,104	1,093,973	1,078,829	1,413,765	1,660,422	1,806,959
Security Income	6,465	3,475	5,045	9,855	8,775	
Restricted for Pavement Preservation	12,000	10,000	12,500	10,500	8,500	11,500
Other	438,460	458,130	535,964	735,462	713,121	694,555
Total Operating Income	$5,189,143	$5,116,543	$5,213,902	$6,409,745	$7,020,641	$7,284,748
Operating Expenses						
Office and Administration	65,576	64,688	78,683	83,762	89,504	71,114
Contract Services	58,379	78,014	49,419	32,184	84,316	66,704
Control Tower & Fire Safety	78,118	78,378	92,009	86,390	92,404	84,699
Insurance	61,962	64,838	71,500	60,260	110,294	76,045
Law Enforcement & Security	416,936	14,113	29,688	40,739	23,031	53,062
Repairs, Maintenance	288,044	211,119	249,758	364,019	387,063	490,896
Personnel - Wages, Taxes & Benefits	1,548,961	1,900,034	1,950,800	2,185,687	2,322,482	2,436,835
Utilities	352,555	374,806	335,851	437,229	564,160	578,123
Other	32,248	51,005	50,002	88,720	63,177	139,524
Depreciation and Amortization	1,944,902	2,236,217	2,366,149	2,820,726	3,155,071	3,825,953
Total Operating Expenses	$4,847,681	$5,073,212	$5,273,859	$6,199,716	$6,891,502	$7,822,955
Net Operating Revenue (Operating Income/Loss)	341,462	43,331	(59,957)	210,029	129,137	(538,206)
Plus: Non-Operating Revenues (Expenses)	577,630	357,407	(69,751)	(261,015)	(375,885)	(2,298,164)
Plus: Depreciation and Amortization	$1,944,902	$2,236,217	$2,366,149	$2,820,726	$3,155,071	$3,825,593
Net Revenue Available for Debt Service	2,863,994	2,636,955	2,236,441	2,769,740	2,908,323	989,223
Plus: Passenger Facility Charges	817,883	955,384	1,281,823	1,473,313	1,583,069	1,696,972
Pledged Revenue Available for Debt Service	$3,681,877	$3,592,339	$3,518,264	$4,243,053	$4,491,392	$2,686,195
Annual Debt Service Requirement	n/a	n/a	n/a	**399,352**	**653,486**	**1,143,786**
Debt Service Coverage Based on Annual Debt Service Requirement	n/a	n/a	n/a	**10.62**	**6.87**	**2.35**
Maximum Annual Debt Service Requirement	n/a	n/a	n/a	**1,144,120**	**1,144,120**	**1,143,786**
Debt Service Coverage Based on Maximum Annual Debt Service Requirement	n/a	n/a	n/a	**3.71**	**3.93**	**2.35**

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	Audited 2011-2012	Audited 2012-2013
Cash & Investments as of 7/1	$9,279,280	$10,068,413	$13,895,506	$16,223,194	$13,696,411	$21,043,082	$5,319,934	$9,275,306
Cash Income	4,860,502	4,909,182	5,049,305	5,173,558	5,251,111	6,141,263	7,374,859	7,106,593
Cash Expense	(2,567,667)	(2,599,296)	(2,867,241)	(2,901,917)	(2,897,399)	(3,437,806)	(3,621,692)	(4,167,193)
Interest & investment income	482,297	641,930	559,630	357,407	356,700	419,569	307,020	1,394,925
County Tax	-	-	-	-	-	-	-	-
Reclamation	12,000	18,000	18,000	-	-	-	-	-
PFC & CFC Revenue	752,015	767,227	825,526	839,432	1,532,544	1,863,651	1,956,150	2,266,203
Grant Revenue	2,728,804	1,168,412	3,384,988	(17,821)	5,917,950	6,281,230	4,347,500	2,764,229
Capital Improvements	(5,478,818)	(1,078,362)	(4,642,520)	(5,977,442)	(18,073,137)	(26,337,569)	(5,194,292)	(784,655)
Bond Proceeds (less issuance and int. cost)					15,258,902	(653,486)	(653,486)	(1,143,486)
Contributed Capital/ Payment to Others							(560,687)	(1,886,625)
Cash & Investments as of 6/30	$10,068,413	$13,895,506	$16,223,194	$13,696,411	$21,043,082	$5,319,934	$9,275,306	$14,825,297

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.

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,395,558	$ 6,404,065
Investments	22,755	1,148,636
Receivables		
Customers, net	1,193,688	1,015,453
Grant	2,962,659	2,547,497
Passenger facility charges	314,932	301,610
Prepaid expenses	119,226	113,580
	16,008,818	11,530,841
OTHER ASSETS		
Bond issue cost, net	233,354	260,452
Intangible asset, net	241,309	257,951
Restricted cash and cash equivalents	3,429,739	2,871,241
	3,904,402	3,389,644
PROPERTY, PLANT AND EQUIPMENT		
Land	9,951,856	9,951,856
Runways and improvements	35,862,078	35,840,723
Buildings and equipment	75,433,464	74,984,590
Construction in progress	341,403	26,976
	121,588,801	120,804,145
Accumulated depreciation	(38,180,744)	(34,371,793)
	83,408,057	86,432,352
Total assets	$ 103,321,277	$ 101,352,837

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Payable from unrestricted assets		
Accounts payable	$ 10,228	$ 53,234
Deposits	338,279	477,465
Accrued payroll liabilities	266,117	248,111
Prepayments - land rent	39,820	39,740
Current portion of 2009 revenue bonds payable	505,000	460,000
	1,159,444	1,278,550
LONG-TERM LIABILITIES		
2009 revenue bonds payable, less current portion	15,005,000	15,540,000
Total liabilities	16,164,444	16,818,550
NET POSITION		
Invested in capital assets, net of related debt	68,372,720	70,950,755
Restricted for capital projects and debt service	3,744,671	4,321,487
Unrestricted	15,039,442	9,262,045
Total net position	87,156,833	84,534,287
Total liabilities and net position	$ 103,321,277	$ 101,352,837

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Landing fees	$ 571,021	$ 555,505
General aviation	474,743	470,283
Terminal building rents	1,683,869	1,573,628
Concessionaires	2,042,101	2,030,407
Parking lot	1,806,959	1,660,422
Other	706,055	730,396
	7,284,748	7,020,641
OPERATING EXPENSES		
Accounting and auditing	12,300	13,250
Additional security	53,062	23,031
Advertising	3,809	4,446
Aircraft rescue and fire fighting	26,085	24,396
Amortization	16,642	16,642
Control tower	58,614	68,008
Customs	83,253	69,761
Deposit refunds	2,125	2,075
Depreciation	3,808,951	3,138,429
Dues and subscription	15,216	17,416
Insurance	76,045	110,294
Lease	12,000	12,000
Legal	40,227	5,446
Miscellaneous	42,505	42,032
Office	11,860	30,762
Payroll taxes and insurance	649,186	607,814
Professional services	26,477	14,929
Repairs and maintenance	490,896	387,063
Salaries and wages	1,787,649	1,714,668
Telephone	5,937	7,410
Travel and training	21,992	17,470
Utilities	578,123	564,160
	7,822,954	6,891,502
Operating income (loss)	(538,206)	129,139

(continued)

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(CONTINUED)

	2013	2012
NONOPERATING REVENUES (EXPENSES)		
Interest income	269,044	309,823
Amortization of bond issuance costs	(27,097)	(27,098)
Payments to other agencies	(1,886,625)	-
Loss on disposal of property, plant and equipment	-	(5,124)
Interest expense	(653,486)	(653,486)
	(2,298,164)	(375,885)
CAPITAL CONTRIBUTIONS REVENUE		
Passenger facility charges	1,696,972	1,583,069
Customer facility charges	582,553	450,436
Grants	3,179,391	3,577,304
Other	-	560,687
	5,458,916	6,171,495
CHANGE IN NET POSITION	2,622,546	5,924,749
Net position at beginning of year	84,534,287	78,609,538
NET POSITION AT END OF YEAR	$ 87,156,833	$ 84,534,287

See accompanying notes to the financial statements

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating cash receipts from customers	$ 7,106,593	$ 7,374,859
Cash payments to suppliers for goods and services	(2,397,550)	(1,938,020)
Cash payments to employees for services	(1,769,643)	(1,683,672)
Net cash provided by operating activities	2,939,400	3,753,167
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to other agencies	(1,886,625)	-
Operating grants received	88,576	-
Net cash (used) by noncapital financing activities	(1,798,049)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net purchases of property, plant and equipment	(784,655)	(5,169,833)
Grant receipts	2,675,653	4,347,500
Passenger facility charge receipts	1,683,650	1,505,714
Customer facility charge receipts	582,553	450,436
Principal payment on capital debt	(490,000)	-
Contributed capital	-	560,687
Bond interest payments	(653,486)	(653,486)
Net cash provided by capital and related financing activities	3,013,715	1,041,018

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificate of deposit redemptions	1,148,636	-
Reclassification of investments (STIP)	(22,755)	-
Purchase of investments	-	(2,803)
Interest received	269,044	309,823
Net cash provided by investing activities	1,394,925	307,020
NET INCREASE IN CASH	5,549,991	5,101,205
Cash and cash equivalents, beginning	9,275,306	4,174,101
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,825,297	$ 9,275,306
STATEMENT OF NET POSITION CASH		
Unrestricted	$ 11,395,558	$ 6,404,065
Restricted	3,429,739	2,871,241
	$ 14,825,297	$ 9,275,306

(continued)

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(CONTINUED)

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ (538,206)	$ 129,139
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	3,808,951	3,138,429
Amortization	16,642	16,642
(Increase) decrease in current assets:		
Accounts receivable	(178,235)	(124,866)
Prepaid expenses	(5,646)	31,491
Increase (decrease) in current liabilities:		
Accounts payable	(43,006)	52,252
Deposits	(139,186)	477,465
Prepaid land rents	80	1,619
Compensated absences payable	18,006	30,996
Total adjustments	3,477,606	3,624,028
Net cash provided by operating activities	$ 2,939,400	$ 3,753,167

<u>Supplemental Schedule of Non-cash Investing and Financing Activities:</u>

Gallatin Airport Authority granted an easement on land for the Interchange project valued at $934,800 in the fiscal year ended June 30, 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Measurement Focus and Basis of Accounting

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

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

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

C. Cash and Cash Equivalents

For the purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased, are considered to be cash equivalents. There were no cash equivalents at June 30, 2013 and 2012.

D. Investments

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

E. Inventories

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

F. Accounts Receivable

Accounts receivable represents unpaid billings to outside parties. Due to the nature of the receivables consisting of primarily collected user fees and leases, the Airport considers the majority of these receivables as collectible. A provision for uncollectible receivables in the amount of $6,200 was established for 2013 and 2012.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

The Airport's capital assets are capitalized at historical cost. Contributions of capital assets are recorded at fair market value when received. Depreciation of capital assets is calculated using the straight-line method with estimated useful lives as follows:

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

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

H. Compensated Absences

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

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

I. Operating Revenues and Expenses

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

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Position

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

Proprietary fund net position is divided into three components:

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

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

K. Bond Issuance Costs

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.

L. Budget

The Airport annually adopts a non-legally binding budget.

M. Use of Estimates

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Recent Accounting Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting, and Financial Reporting for Service Concession Arrangements* (GASB Statement No. 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs). This Statement will improve consistency in reporting these types of arrangements, thereby enhancing the comparability of the accounting and financial reporting of such arrangements among state and local governments. The Airport's implementation of GASB Statement No. 60 beginning with the year ending June 30, 2013, resulted in no significant impact on its financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB Statement No. 61). The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The Airport does not expect GASB No. 61 to have an impact on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB Statement No. 63). This Statement provides a new net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Airport implemented GASB Statement No. 63 beginning with the year ending June 30, 2013.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* (GASB Statement No. 64). The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of an interest rate swap counterparty or swap counterparty's credit support provider. The Airport does not expect GASB No. 64 to have an impact on its financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB Statement No. 65), and will be effective for the Airport in fiscal year 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Airport has not yet determined the effect that the adoption of this statement may have on its financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Recent Accounting Pronouncements (continued)

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62* (GASB Statement No. 66). The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The Airport implemented GASB Statement No. 66 beginning with the year ending June 30, 2013.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25* (GASB Statement No. 67, and will be effective for the Airport in fiscal year 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The Airport does not expect GASB No. 67 to have an impact on its financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB Statement No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by other entities. The Airport participates in the Montana Retirement System that is administered by the State of Montana. Under this standard, the Airport will be required to report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on its proportionate share of the collective amounts for all the governments in the Montana Retirement System plan. The Airport will receive the amounts it will be required to report on its financial statements from the Montana Retirement System beginning in fiscal year 2014.

O. Subsequent Events

Management has evaluated subsequent events through November 7, 2013, the date on which these financial statements were available to be issued.

2. CASH AND INVESTMENTS

As of June 30, 2013, the carrying amount of the Airport's deposits (cash and interest-bearing money market accounts) at local banks was $14,825,297 and the bank balance was $15,031,605. Of the bank balance, $255,000 was covered by federal depository insurance and the remainder was backed by government securities through a repurchase agreement.

(continued)

2. CASH AND INVESTMENTS (Continued)

At June 30, 2013, the Airport's only investment was in the Montana Short-Term Investment Pool (STIP). STIP was created by the State of Montana Board of Investments to allow qualifying funds, per sections 17-6-201, 202 and 204, MCA, to participate in a diversified pool. The carrying amount of this investment as of June 30, 2013 and 2012 was $22,755 and $22,698, respectively

At the time that this report was issued, the following information was available regarding this investment as of June 30, 2013 and 2012:

GASB 31

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

GASB 40

Effective June 30, 2005, the State of Montana Board of Investments implemented the provisions of GASB Statement No. 40 – *Deposit and Investment Risk Disclosures.* The unaudited financial statements as of June 30, 2013 and 2012 have disclosures pertaining to STIP's exposure to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and legal and credit risk.

Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

Security Lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year 2013 are disclosed in STIP's financial statements.

An unaudited copy of the STIP fiscal year 2013 financial statements is available online at http://www.investmentmt.com/content/STIP/Docs/2013STIPFinancial.pdf.

2. CASH AND INVESTMENTS (continued)

The following are deposit and investment risk disclosures:

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

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

(continued)

2. CASH AND INVESTMENTS (continued)

The composition of cash and investments on June 30, 2013 and 2012, was as follows:

Investments at June 30, 2013, consists of the investment in STIP as described above. The investments at June 30, 2012, consists of the investment in STIP and certificates of deposit whose term to maturity at date of acquisition exceeded three months. The Airport moved the certificates of deposit to cash on the maturity date in 2013.

	2013		2012	
	Cost	Market Value	Cost	Market Value
Cash and Cash Equivalents				
Operating account	$ 9,564,938	$ 9,564,938	$ 4,188,727	$ 4,188,727
Capital account	1,830,620	1,830,620	2,215,338	2,215,338
	11,395,558	11,395,558	6,404,065	6,404,065
Other assets - Restricted				
Operating reserve account	1,023,629	1,023,629	1,018,438	1,018,438
Small community air service development account	181,957	181,957	-	-
Customs	62,485	62,485	122,117	122,117
Air service account	56,057	56,057	320,070	320,070
Renewal and replacement reserve account	250,000	250,000	250,000	250,000
Debt service account	53,232	53,232	54,457	54,457
Debt service reserve account	1,144,120	1,144,120	-	-
PFC reserve account	658,259	658,259	1,106,159	1,106,159
	3,429,739	3,429,739	2,871,241	2,871,241
	$14,825,297	$ 14,825,297	$ 9,275,306	$ 9,275,306
Investments				
STIP	$ 22,755	$ 22,755	$ -	$ -
Debt service reserve account	-	-	1,148,636	1,148,636
Total investments	$ 22,755	$ 22,755	$ 1,148,636	$ 1,148,636

3. CHANGES IN CAPITAL ASSETS

	6/30/2012	Additions	Disposals	6/30/2013
Capital assets not being depreciated				
Land	$ 9,951,856	$ -	$ -	$ 9,951,856
Construction in progress	26,976	754,764	(440,337)	341,403
Total capital assets not being depreciated	9,978,832	754,764	(440,337)	10,293,259
Capital assets being depreciated				
Runways & improvements	35,840,723	21,355		35,862,078
Buildings & equipment	74,984,590	448,874	-	75,433,464
Total capital assets being depreciated	110,825,313	470,229	-	111,295,542
Less accumulated depreciation	(34,371,793)	(3,808,951)	-	(38,180,744)
Total capital assets being depreciated, net	76,453,520	(3,338,722)	-	73,114,798
Total capital assets, net	$86,432,352	$ (2,583,958)	$ (440,337)	$ 83,408,057

	6/30/2011	Additions	Disposals	6/30/2012
Capital assets not being depreciated				
Land	$ 9,951,856	$ -	$ -	$ 9,951,856
Construction in progress	45,115,980	-	(45,089,004)	26,976
Total capital assets not being depreciated	55,067,836	-	(45,089,004)	9,978,832
Capital assets being depreciated				
Runways & improvements	32,565,255	3,275,468	-	35,840,723
Buildings & equipment	28,520,520	46,993,974	(529,904)	74,984,590
Total capital assets being depreciated	61,085,775	50,269,442	(529,904)	110,825,313
Less accumulated depreciation	(31,747,538)	(3,138,429)	514,174	(34,371,793)
Total capital assets being depreciated, net	29,338,237	47,131,013	(15,730)	76,453,520
Total capital assets, net	$84,406,073	$47,131,013	$ (45,104,734)	$ 86,432,352

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

4. CONSTRUCTION IN PROGRESS

Construction in progress consists mainly of engineering fees associated with the expansion of the parking area, terminal apron, and the planned interchange project.

5. OUTSTANDING DEBT

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

Long-term liability activity for the years ended June 30, 2013 and 2012, is as follows:

	Beginning Balance 6/30/2012	Additions	Reductions	Ending Balance 6/30/2013	Amounts Due Within One Year
Revenue bonds	$16,000,000	$ -	$(490,000)	$15,510,000	$505,000

	Beginning Balance 6/30/2011	Additions	Reductions	Ending Balance 6/30/2012	Amounts Due Within One Year
Revenue bonds	$16,000,000	$ -	$ -	$16,000,000	$460,000

(continued)

5. OUTSTANDING DEBT (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
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
2019-2023	3,150,000	3.50-3.95%	2,555,913	5,705,913
2024-2028	705,000	4.000%	437,260	1,142,260
2029-2033	4,000,000	4.375%	1,710,614	5,710,614
2034	4,980,000	4.700%	723,800	5,703,800
	$ 15,510,000		$ 8,464,417	$ 23,974,417

(continued)

5. OUTSTANDING DEBT (Continued)

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

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

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

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

6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

	Employer	Employees hired prior to July 1, 2012	Employees hired after June 30, 2012	State of Montana	Total
2013	7.070%	6.900%	7.900%	0.100%	14.070% - 15.070%
2012	7.070%	6.900%	7.900%	0.100%	14.070% - 15.070%
2011	7.070%	6.900%	n/a	0.100%	14.070%

The amounts contributed to the plan during the years ended June 30, 2013 and 2012, 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
2013	$ 1,866,532	$ 131,964	$ 130,323
2012	1,750,639	123,770	121,104
2011	1,650,669	116,702	113,896

7. PASSENGER FACILITY CHARGE PROGRAM

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

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

The active PFC approved project during the years ended June 30, 2013 and 2012, was PFC 09-05-C-00-BZN. The PFC project No. 09-05-C-00-BZN effective July 1, 2011, authorized a charge of $4.50 per enplaned passenger and total project expenditures of $29,000,000. This project expires March 1, 2029.

(continued)

8. CUSTOMER FACILITY CHARGE

Customer facility charges (CFCs) are levied by the Airport pursuant to an agreement with the rental car companies serving the Airport. The CFC rate was $2.75 per contract rental day as of June 30, 2013 and 2012.

9. PREPAID LAND RENTS

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

10. NET POSITION

Net position consists of the following:

Invested in capital assets, net of related debt, consists of the following:

	2013	**2012**
OTHER ASSETS		
Intangible asset, net	$ 241,309	$ 257,951
Bond issue cost, net	233,354	260,452
	474,663	518,403
PROPERTY, PLANT AND EQUIPMENT		
Land	9,951,856	9,951,856
Runways & improvements	35,862,078	35,840,723
Buildings & equipment	75,433,464	74,984,590
Construction in progress	341,403	26,976
Accumulated depreciation	(38,180,744)	(34,371,793)
	83,408,057	86,432,352
LESS: CURRENT LIABILITIES		
Current portion of bonds payable for amount invested in capital assets	505,000	460,000
LESS: LONG-TERM LIABILITIES		
Bonds payable for amount invested in capital assets, less current portion	15,005,000	15,540,000
Invested in capital assets, net of related debt	$68,372,720	$ 70,950,755

(continued)

10. NET POSITION (Continued)

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

	2013	2012
CURRENT ASSETS		
Investments	$ -	$ 1,148,636
Passenger facility charges receivable	314,932	301,610
	314,932	1,450,246
OTHER ASSETS		
Restricted cash	3,429,739	2,871,241
Restricted for capital projects and debt service	$ 3,744,671	$ 4,321,487

11. PROPERTY LEASED TO OTHERS

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

2014	$ 2,665,715
2015	1,800,697
2016	475,971
2017	298,229
2018	280,954

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, 2013.

The Airport also leases property through contingent rentals in service concession arrangements. The concession agreement is for the purpose of operating the parking facilities at the Airport. Gallatin Airport Authority retains ownership to all assets related to the parking facility and agrees to maintain the parking asphalt, lights & perimeter barriers. The term of the agreement is for a 12 month period and is a revenue sharing agreement requiring a minimum annual guarantee or a percent of annual receipts, whichever is greater. Contingent rental payments received by the Airport totaled $3,159,641 and $2,970,811 for the years ended June 30, 2013 and 2012, respectively, and were in excess of the minimum annual guarantee.

12. RISK MANAGEMENT

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

13. RELATED PARTIES

John McKenna (Board Member) and two unrelated parties entered into a 10-year lease with the Airport beginning May 1, 2001. Lease revenue for 2013 and 2012 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 2013 and 2012 was $1,874 per year.

Ted Mathis (Board Member) rents a hangar from the Airport on a month-to-month basis. The hangar rents for $150 per month. Rental revenue for 2013 and 2012 was $1,800 per year.

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

14. CONCENTRATIONS

The Gallatin Airport Authority receives a significant portion of its operating revenues from leasing the parking facility. The revenues from this lease accounted for approximately 23% and 24% of operating revenues for the years ended June 30, 2013 and 2012.

15. COMMITMENTS

The Gallatin Airport Authority 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 Airport. The Gallatin Airport Authority 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.

16. RECLASSIFICATIONS

Certain amounts in the fiscal year 2012 financial statements have been reclassified to conform to the fiscal year 2013 presentation.

SUPPLEMENTARY INFORMATION

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF IN-FORCE INSURANCE
JUNE 30, 2013

Insurer	Coverage	Amount	Expires	Annual Premium
Northwest Insurance Company	Commercial Buildings	$ 67,093,098	8/10/2013	$ 53,511
Cincinnati Insurance Company	Commercial Auto	$ 3,000,000	8/10/2013	$ 9,202
	Inland Marine	$ 1,918,712	8/10/2013	$ 3,640
	Boilers and Machinery (included in property)			
Cincinnati Insurance Company	Public Employees Crime Policy	$ 50,000	8/10/2013	$ 2,478
Cincinnati Insurance Company	Directors & Officers Liability and Employment Practices Liability	$ 1,000,000	8/10/2013	$ 5,859
Ace USA	Aviation Liability	$ 30,000,000	8/10/2013	$ 8,690
Darwin Professional Underwriters, Inc.	Law Enforcement Liability	$ 2,000,000	8/10/2013	$ 4,227

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED
AND EXPENDED FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Cumulative to 6/30/2013	Cumulative to 6/30/2012
SOURCES:		
PFC collections	$15,722,100	$ 14,038,450
Interest earned	284,634	273,873
Total sources	16,006,734	14,312,323
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	490,000	-
Interest	2,359,811	1,706,325
	6,269,859	5,126,373
Cost of improvements	9,078,616	8,079,791
Total uses	15,348,475	13,206,164
PFC reserve account at June 30	$ 658,259	$ 1,106,159

holmes & turner

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

To the Board of Directors
Gallatin Airport Authority
Belgrade, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and major fund of Gallatin Airport Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Gallatin Airport Authority's basic financial statements, and have issued our report thereon dated November 7, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Holmes & Turner

November 7, 2013

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

None

GALLATIN AIRPORT AUTHORITY
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2013

There were no findings, questioned costs, or reportable conditions for the year ended June 30, 2012.

holmes & turner

CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF CPA ASSOCIATES INTERNATIONAL, INC.

14TH STREET, SUITE 201
MONTANA 59715
587-4265
586-3111

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

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

Report on Compliance

We have audited Gallatin Airport Authority's compliance with the types of compliance requirements described in 14 CFR Part 158 that are applicable to passenger facility charges for the year ended June 30, 2013.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Passenger Facility Charges

In our opinion, Gallatin Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2013.

Report on 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 audit of compliance, we considered Gallatin Airport Authority's internal control over compliance with requirements that could have a direct and material effect on the program facility charge program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the internal control over compliance in accordance with the standards in 14 CFR Part 158, "Passenger Facility Charges", but not for the purpose of expressing an opinion on the effectiveness of Gallatin Airport Authority's 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

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

Holmes & Turner

HOLMES & TURNER
November 7, 2013