GALLATIN AIRPORT AUTHORITY

AUDITED FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

GALLATIN AIRPORT AUTHORITY
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PART I

INTRODUCTORY SECTION

GALLATIN AIRPORT AUTHORITY
June 30, 2012

ORGANIZATION

BOARD OF COMMISSIONERS

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

AIRPORT DIRECTOR

Brian Sprenger, A.A.E.

DEPUTY AIRPORT DIRECTOR

Scott Humphrey, A.A.E.

OFFICE MANAGER

Cherie Ferguson, C.M.

PART II

FINANCIAL SECTION

Junkermier • Clark
Campanella • Stevens • P.C.
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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, 2012 and 2011. 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, 2012 and 2011, 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 December 4, 2012 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 considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 response to our inquiries, the basic financial statements, and other knowledge obtained during our audits 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.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of in-force insurance and schedules of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of in-force insurance and the schedules of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Gallatin Airport Authority's financial statements. The introductory and statistical sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

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

Bozeman, Montana
December 4, 2012

A. MANAGEMENT DISCUSSION AND ANALYSIS

Gallatin Airport Authority
Year in Review FY 2012

BZN Bozeman Yellowstone
INTERNATIONAL AIRPORT

U.S. Customs and
Border Protection

Annual Report FY 2012

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, 2012. The discussion and analysis should be read in conjunction with the entire 2012 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 2012 Gallatin Airport Authority income and expenditures
- Changes in Net Assets – Detail of activities that contributed to the changes in net assets during FY 2012

John McKenna, Jr.
Chair

Kevin Kelleher
Vice Chair

Ted Mathis
Secretary

Steve Williamson
Member

Carl Lehrkind IV
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

Public Safety Officers:
Kerry Bickle
Ken Dove
Jeff McRae
Alan Parker
Rick Shirey
Greg Bankert

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

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

In the airport world, change does not usually happen overnight and is normally the result of months, years and sometimes decades of planning and effort. Fiscal Year 2012 was a culmination of many such projects and has resulted in significant positive change at the Airport. Over the year, we completed a terminal expansion, changed the airport name, became "international", improved air traffic control services and added three new destinations all while handling a record number of passengers.

The final phases of the terminal expansion opened in FY 2012 with the main lobby, concessions and screening checkpoint opening in August and the rental car lobby opening in December. This completed a project that began in July 2009 and employed approximately 125 people for nearly two and a half years. The capabilities of the new terminal were evident this summer when, for the first time in Montana history, an airport handled over 100,000 passengers in a single month. In July we handled 112,418 passengers and then in August we handled 107,845 passengers. For the summer of 2012, we enplaned and deplaned 305,691 passengers compared to 233,116 in the summer of 2009 when we started the project, an increase of approximately 31% over three years. On a fiscal year basis, we enplaned 408,199 and deplaned 409,910 for a total passenger count of 818,109 in FY 2012 compared to 771,149 in FY 2011, a 6.1% increase.

As recently as January 2000, there were only three non-stop destinations outside of Montana that a person could fly to from BZN. In June 2012, BZN had service to thirteen destinations coast to coast in eleven states and four time zones. During FY 2012, we added non-stop service to Oakland, CA, Portland, OR and a first for Montana, we inaugurated non-stop service to New York City through Newark Airport. The New York service was made possible through the combination of a small community air service grant and our local communities (Gallatin Valley, Big Sky and West Yellowstone) coming up with matching money to provide a revenue guarantee.

At the December 2012 Airport Board Meeting, the Airport Board approved changing the airport's name from Gallatin Field to Bozeman Yellowstone International Airport (at Gallatin Field). The new name was chosen to take advantage of the largest single tourism draw in the region, Yellowstone National Park as well as align the airport name with the airport city code (BZN) and largest population center, Bozeman. In addition, "International" was added to signify the addition of a U.S. Customs and Border Protection (CBP) facility at the airport that opened on July 1, 2012. The CBP facility itself was the culmination of over a decade of effort and finally came to fruition through a partnership between the Gallatin Airport Authority, the Yellowstone Club and Signature Flight Support that provided financial support for the facility and staffing.

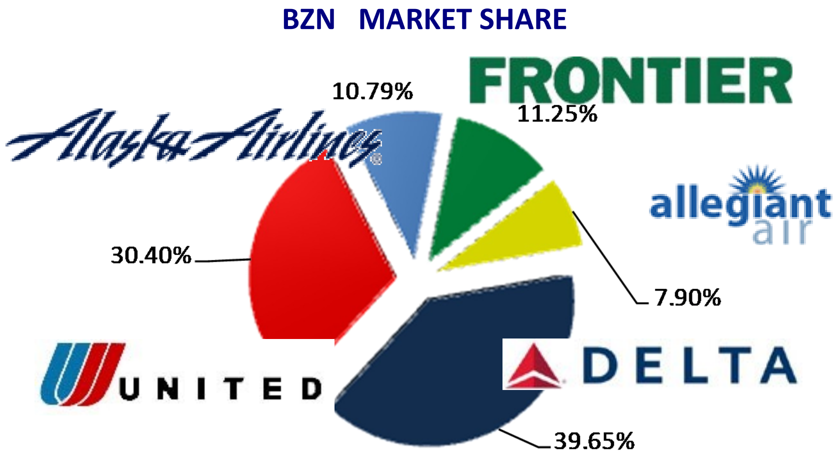
Other significant events at the Airport also included the implementation of new departure and missed approach procedures that have reduced delays at BZN and the approval of the I-90/East Belgrade Interchange project that will provide direct access from I-90 to the Airport. Additionally, inside the terminal we opened two new concessions, the Copper Horse Market and "Destination Yellowstone," which is a partnership between the Yellowstone Association and the Yellowstone Park Foundation. We also added the first based air ambulance service at the airport with the addition of Summit Air Ambulance. The other "Summit," Aviation and their flight school program with the Gallatin College at MSU, now has over 70 students enrolled in the program resulting in a significant increase in local flying activity.

Financially, the Gallatin Airport Authority has continued to benefit from the increase of passengers as well as contractual changes that have occurred over the past three years. Total operating revenue was up 18.7% to $7,020,641 while operating expenses were $6,891,502, up 11.3% resulting in operating income of $3,284,210 (excluding depreciation or amortization). We are now realizing the full benefits of the contractual changes and future revenue growth will be organic in nature.

None of this could have been accomplished without the dedicated and knowledgeable members of the Airport Board and the exceptional professionals on airport staff. Our team's depth of aviation and airport knowledge is the reason for our success. However, turbulence is common in our industry and we cannot rest on our laurels. Fuel prices, airline consolidation, competition between airports and general aviation struggles are but a few of the potential challenges that could impact the industry and the airport. We believe we have the experience in place and are well positioned to address these challenges as they occur. We are proud to serve the flying public and hope that this report will provide valuable information on the status of the airport. We welcome and value your input on how we can better serve you at Bozeman Yellowstone International Airport.

ENPLANEMENTS 5.8%

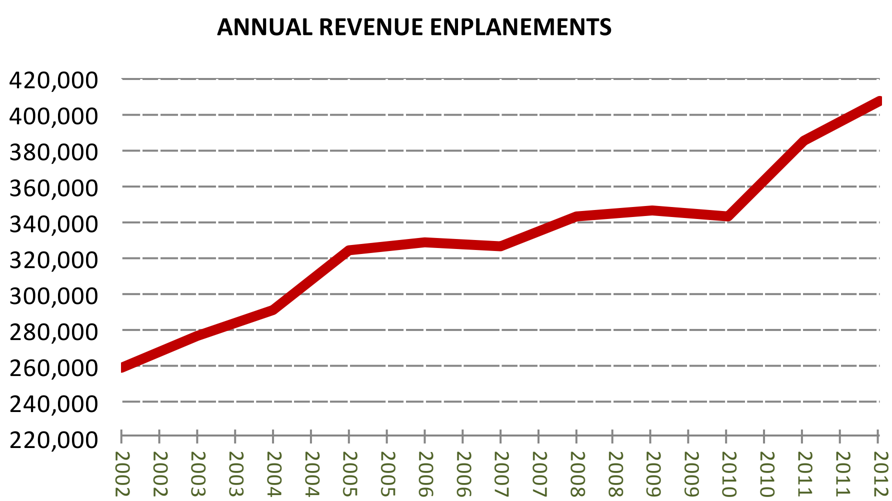
Bozeman Yellowstone International Airport had a 5.8% increase in enplanements for FY 2012 as 408,199 passengers boarded flights and 818,109 passengers passed through the terminal. The airport introduced new seasonal service to the New York Metro area, San Francisco Bay Area, and Portland, Oregon that fueled an additional 19,000 outbound seats (498,413 outbound seats total) for sale, representing a 3.9% increase over FY 2011. Revenue passenger load factor for CY 2012 was 81.6%.



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 / Oakland
Los Angeles
Portland

Airline	FY 2012 Seats	FY 2012 Revenue Enplanements	FY 2012 Revenue Load Factor %
Delta	186,680	161, 312	86.4
United	163,118	123,676	75.8
Frontier	57,215	45,777	80.0
Alaska	55,550	43,906	79.1
Allegiant	35,850	32,142	89.7



Top Ten Destinations by Enplanements:

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

Tower operations increased 17.3% with 82,116 operations. Operations are defined as a departure or arrival. BZN had a net increase in airline frequency with 272 more departures in FY 2012 representing 3.9% additional seats. Air Taxi activity as defined by the FAA (aircraft designed to have a maximum seating capacity of 60 seats or less) decreased 9.7% as airlines transitioned from 50 seat regional jets to 70 seat and larger jets. Itinerant general aviation operations (visiting aircraft not based at BZN) saw an increase of 9.9%. General aviation increased dramatically (38.4%) driven by Summit Aviation's partnership with Montana State University through Gallatin College.

Tower Operations 17.3%

OPERATIONS	% CHANGE FROM FY 2011	FY2012
AIR CARRIER	4.2	7,908
AIR TAXI	(9.7)	9,470
ITINERANT GENERAL AVIA-	9.9%	28,387
LOCAL GENERAL AVIATION	38.4	36,066
MILITARY	64.7	285
Corporate Landings > 12,500	(2.4)	2,619

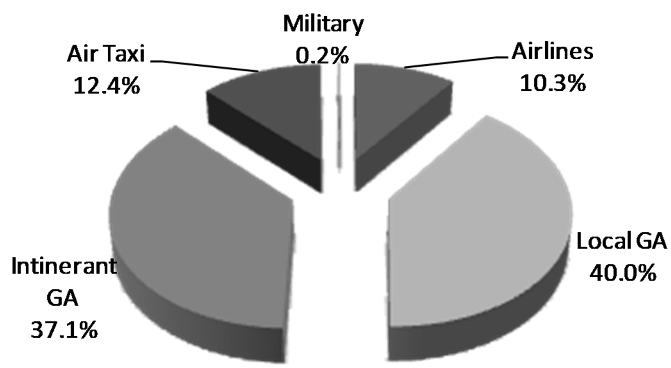
Fuel Flowage Income 9.8%

Fuel flowage income increased 9.8% to $109,975. Airline fuel 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 and non-government Jet-A fuel.

Type of Fuel	% Change from FY2011	2012 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 4.7%

Total cargo, express and mail increased 4.7% to 3,964,323 lbs in FY 2012 vs. 3,787,878 lbs in FY2011. During this timeframe, the U.S. air freight and express industry saw volume fall 1.3 percent year-over-year according to the Air Cargo Management Group, which follows the cargo industry. The airport receives revenue from cargo operations through landing fees and rent paid by FedEx, UPS and airlines.



Carrier	% Change from 2011	CY 2012 LBS Moved
FedEx	6.7	2,810,000
UPS	2.8	848,377
Airlines	2.1	305,946

Rental Car Revenue 3.9%

Rental car commission increased 3.9% from $1,886,876 in FY 2011 to $1,960,529 in FY 2012. Transaction days (the number of days a vehicle is rented) increased 6.0% from 314,437 days in FY 2011 to 333,232 days in FY 2012. The average cost per-day of a rental car increased 1.6%. 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 three off-airport rental car agencies that generated $6,955 in commission. Off-airport agencies pay the Authority a straight 10% commission fee for each rental originating at the airport.

On-Airport Brand	Concession Fee FY2012	Market Share
Hertz	$642,563	32.8%
Alamo/National	$465,455	23.7%
Avis/Budget	$458,273	22.4%
Enterprise	$209,125	10.7%
Dollar/Thrifty	$185,113	9.4%

Parking Revenue 17.4%

Commission from parking operations increased 17.4% from $1,413,765 in FY 2011 to $1,660,422 in FY 2012. The airport pays a percentage of revenue to Standard Parking for management of parking operations. The management fee for FY 2012 equaled 13.6% of gross parking revenue or $263,119. Parking rates remained at $7.00 per-day, $42.00 per-week economy parking and $10.00 per-day and $70.00 per-week for premium parking. These rates remain competitive with other Montana commercial service airports.

Food & Retail Revenue 22.1%

Food and retail commission increased 22.1% from $412,062 in FY 2011 to $503,216 in FY 2012. Gift shop commission increased less than 1% while the restaurant commission increased 69%. The disparity between the percentage of increase of the gift shop vs. the restaurant was a result of not having a full service restaurant behind security. In prior years, the gift shop sold pre-packaged food and beverages in the terminal and concourse while the restaurant's revenues were derived solely from food sales purchased pre-security. After the terminal remodel, the restaurant now has a presence pre-security with our bistro, and post security with a full service restaurant/bar. FY 2012 gift shop revenue is absent most food sales and commission generated was mainly from clothing, souvenirs, dry goods from the two gift shops and convenience store.

Destination Yellowstone

FY 2012 saw the opening of "Destination Yellowstone", a unique partnership between the airport, Yellowstone Association and Yellowstone Park Foundation. The store provides a one-of-a-kind experience with an extensive collection of Yellowstone Park educational merchandise, information, wildlife sighting and updated road conditions including an interactive display. The store is staffed and managed by the Yellowstone Association.

CASH INCOME UP 20%, CASH EXPENSE UP 5.3%

Airside Income: Airline landing fees increased 6.6% to $555,505 with no increase in rate ($1.11 per thousand pounds gross landing weight). General Aviation fees (rents, tie down fees, landing fees, fuel flowage fees) decreased 0.4% to $467,669. Airside fees are used to offset the airport's cost in maintaining runways, taxiways, signage, utilities, the cost of snow removal and Airport Rescue and Fire Fighting, and a portion of Public Safety.

Landside Income: Terminal building rents, commissions, and advertising were up 21.3% to $1,573,626. Commissions from parking operations, ground transportation and car rentals were up 9.5% to $3,683,874.

Cash Expense: A majority of the 5.3% increase in cash expense is associated with opening/operating an additional 125,00 square feet of terminal space; utilities (gas and electric) were up 29%, terminal maintenance and supplies were up 12%. Salary, wages and benefits were up 6.3%.

FY 2012 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 18.7% better than budget while operating expenses were 9.2% below budget. Capital Expenditures (final expenditures to close out the terminal project and service terminal debt) were budgeted at $6,286,251 and came in at $5,823,317. The airport contributed $560,687 to the Capital Improvement Fund that is used for acquisition and maintenance of major capital assets.

Statement of Cash Flows	FY2011	FY2012
Cash Income	$6,141,263	$7,374,859
Cash Payments	$(3,437,806)	$(3,621,692)
Net Cash Provided by Operations	**$2,703,457**	**$3,753,167**
Cash From Non-Operating Activities		
Net Purchases Property, Plant & Equipment	$(26,337,569)	$(5,169,833)
PFC Receipts	$1,442,664	$1,505,714
CFC Receipts	$420,987	$450,436
Grants	$6,281,230	$4,347,500
Contributed Capital	-	$560,687
Bond Proceeds and interest payments	$(653,486)	$(653,486)
Net Cash Provided by Non-Operating Activities	**$(18,846,174)**	**$1,041,018**
Investments Sold (CDs)	$7,456,337	$(2,803)
Investments Purchased (CDs)	$(36,380)	-
Interest Received	$419,569	$309,823
Net Cash Provided by Investing	**$7,839,526**	**$307,020**
Cash and Cash Equivalents at Beginning of the Year	$12,477,292	$4,174,101
Cash and Cash Equivalents at End of the Year	$4,174,101	$9,275,306
Net Increase (Decrease) in Cash	**$(8,303,191)**	**$5,101,205**

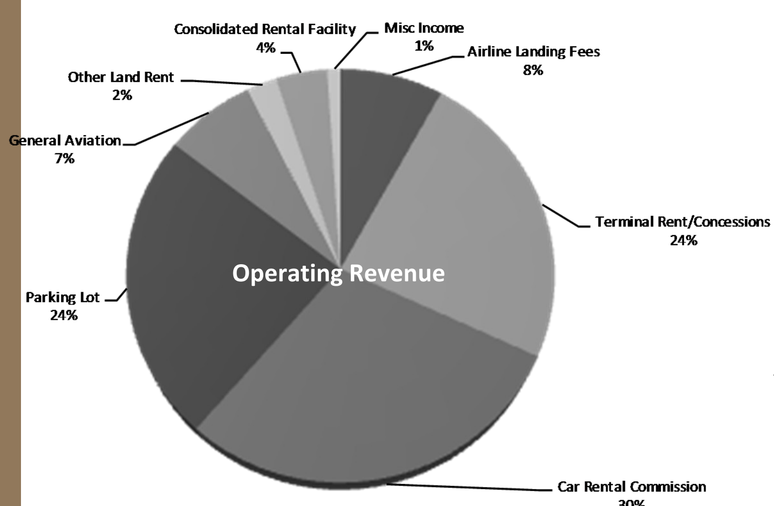
Actual to Budget Comparison	FY 2012 Budget	FY 2012 Actual
Operating Revenue	$5,912,886	$7,020,641
Non-Operating Revenue	$292,963	$309,823
Grants	$2,531,954	$4,347,500
PFC Income	$1,150,000	$1,505,714
CFC Revenue	$478,201	$450,436
Capital Improvement Fund	$99,337	$560,687
Total Income	**$10,465,341**	**$14,194,801**
Total Operating Expense (Not Including Depreciation or Amortization)	$4,079,752	$3,736,433
Capital Expenditures (Including Debt Service)	$6,286,251	$5,823,317
Total Expenditures	**$10,366,003**	**$9,559,750**

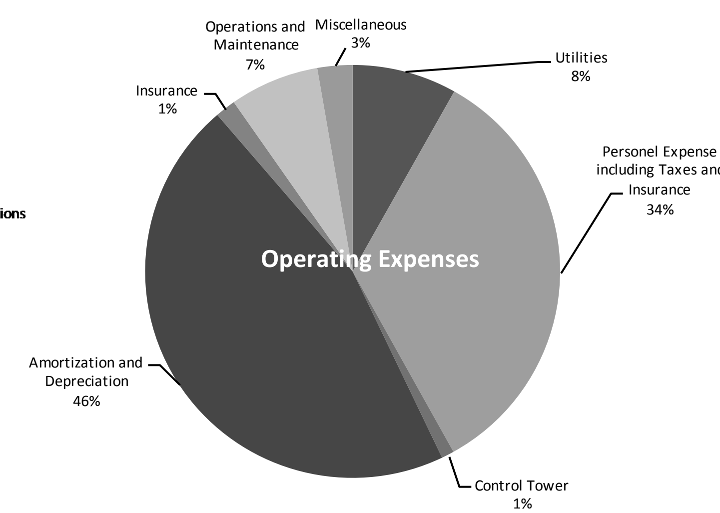
Statement of Net Assets FY 2012: Presents the financial position of the Gallatin Airport Authority at the end of the fiscal year 2012. The statement includes all assets and liabilities and indicates the current financial health of the Gallatin Airport Authority. Total assets increased $5,924,749 to $101,352,837 with complete 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, 2012.

(1) Airport Master Plan, Bond Issuance Cost.

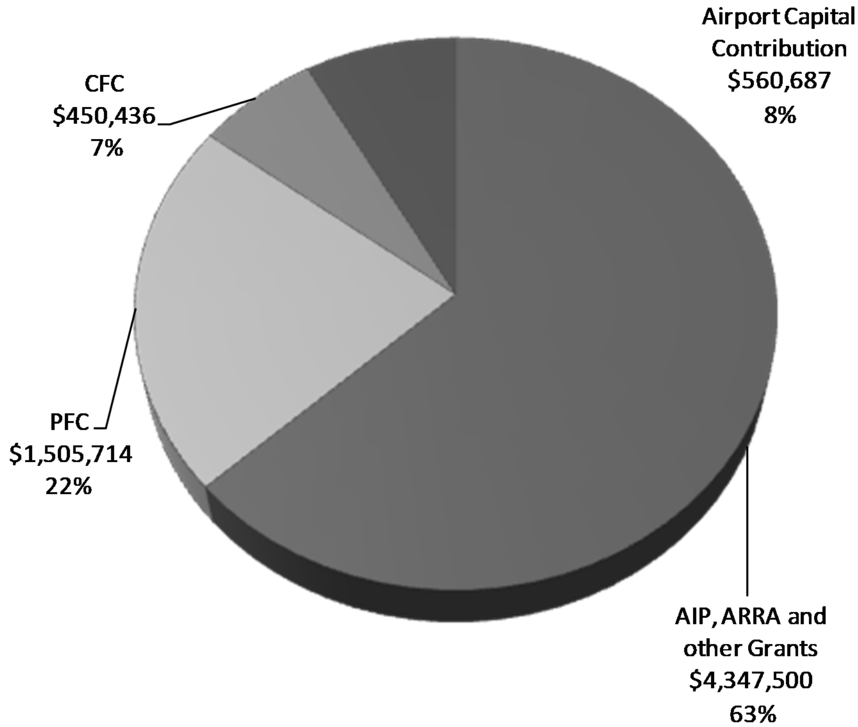
Statement of Net Assets	FY2011	FY2012
Cash & Equivalents	$1,800,924	$6,404,065
Investments	$1,145,833	$1,148,636
Restricted Cash	$2,373,177	$2,871,241
Receivable/Prepaid Expense	$4,577,606	$3,978,140
Property, Plant & Equipment (including Accumulated Depreciation)	$84,406,073	$86,432,352
Other Assets (1)	$562,143	$518,403
Total Assets	**$94,865,756**	**$101,352,837**
Current Liabilities	$256,218	$1,278,550
Long-Term Liabilities 2009 Bonds	$16,000,000	$15,540,000
Total Liabilities	**$16,256, 218**	**$16,818,550**
Net Assets Invested in Capital	$68,968,216	$70,950,755
Net Assets-Restricted	$3,743,265	$4,321,487
Net Assets-Unrestricted	$5,898,057	$9,262,045
Total Net Assets	**$78,609,538**	**$84,534,287**
Total Liabilities & Net Assets	**$94,865,756**	**$101,352,837**

Changes in Net Assets	FY2011	FY2012
Operating Revenue	$6,409,745	$7,020,641
Operating Expense (Including Depreciation and Amortization)	$(6,199,716)	$(6,891,502)
Operating Income	**$210,029**	**$129,139**
Non-Operating Income (Expense)	$(261,015)	$(375,885)
Capital Contributions	$10,943,695	$6,171,495
Increase in Net Assets	**$10,892,709**	**$5,924,749**





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 $3,256,165 dollars in FY 2012 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.

America Recovery and Reinvestment Act **(ARRA)** - Bozeman Yellowstone International Airport received a one-time grant from the Department of Homeland Security in the amount of $3,266,866 of which $345,118 was reimbursed during FY 2012. This grant covered partial cost of construction and installation of the new baggage handling system, checked baggage inspection system, and explosive detection systems for the Transportation Security Administration (TSA).

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

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 ($1,505,714 in FY 2012) 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 2012, the airport received $450,436 in CFC revenue for capital improvements.

GAA Bond Reporting

Historical Total Passengers

Year	Enplanments	Deplanements	Total	Growth
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%
CY 2000	242,650	242,692	485,342	9.0%

(FY) Airline Cost Per Enplanement

Year	Total Landing Fees	Airline Terminal Rents	Total Cost (Airline Payments)	Enplaned Passengers	Cost per En-planed Passenger
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
2005	429,571	577,118	1,006,689	323,806	$3.11

Historical Enplanements By Airline

	CY 2006		CY 2007		CY 2008		CY 2009		CY 2010		FY 2011		**FY 2012**	
Carrier	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	**Enplane-ments**	**Share**
Delta	101,837	32.0%	99,813	29.8%	93,478	26.6%	82,093	24.0%	155,924	42.7%	157,796	40.9%	**161,312**	**41.1%**
North-west	97,807	30.8%	91,989	27.4%	92,542	26.3%	75,426	22.0%	155,924	42.7%				
United	76,161	24.0%	94,554	28.2%	95352	27.1%	98,560	28.8%	119,649	32.8%	128,789	33.4%	**123,676**	**31.6%**
Horizon	37,067	11.7%	43,690	13.0%	39,626	11.3%	31,081	9.1%	37,070	10.2%	40,430	10.5%	**43,906**	**10.9%**
Frontier	–	–	–	–	27,039	7.7%	42,528	12.4%	35,847	9.8%	34,916	9.0%	**45,777**	**11.4%**
Allegiant	–	–	–	–	3,025	0.9%	12,894	3.8%	15,708	4.3%	23,000	6.0%	**32,142**	**7.9%**
Big Sky	4,024	1.3%	4,459	1.3%	152	0.0%	–		–					
Charters	954	0.3%	771	0.2%	0	0.0%	132	0.0%	1012	0.3%	1,061	0.3%	**1,386**	**0.3%**
Totals	317,850	100.0%	335,276	100.0%	351,214	100.0%	342,714	100.0%	365,210	100.0%	385,992	100.0%	**408,199**	**100.0%**

Historical Fees and Rental Charges

Item	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	**FY 2012**
Landing Fee (per each 1,000 lbs over 12,500 GLW)	$0.96	$1.12	$1.05	$1.03	$1.12	$1.12	$1.15	**$1.11**
Annual Terminal Rentals								
Finished (per sq ft per year)	$19.30	$20.06	$20.98	$21.89	$21.06	$21.62	$22.27	**$22.27**
Unfinished (per sq ft per year)	$11.58	$12.04	$12.59	$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 Rental (per sq ft per year)	$11.58	$12.04	$12.59	$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 2006-2007	Audited 2007-2008	Audited 2008-2009	Audited 2009-2010	Audited 2010-2011	Audited 2011-2012
Operating Income						
Landing Fees	453,571	507,222	484,272	466,433	521,056	555,505
Terminal Building Rents	1,099,015	1,117,227	1,121,782	1,115,228	1,297,445	1,573,628
General Aviation	425,092	486,602	429,327	447,042	469,563	470,283
Concessions	1,476,304	1,572,063	1,515,584	1,552,861	1,952,099	2,030,407
Parking Lot	823,090	1,049,104	1,093,973	1,078,829	1,413,765	1,660,422
Security Income	6,305	6,465	3,475	5,045	9,855	8,775
Restricted for Pavement Preservation	12,000	12,000	10,000	12,500	10,500	8,500
Other	437,309	438,460	458,130	535,964	735,462	713,121
Total Operating Income	4,732,686	5,189,143	5,116,543	5,213,902	6,409,745	7,020,641
Operating Expenses						
Office and Administration	82,249	65,576	64,688	78,683	83,762	89,504
Contract Services	63,128	58,379	78,014	49,419	32,184	84,316
Control Tower & Fire Safety	0-	78,118	78,378	92,009	86,390	92,404
Insurance	66,885	61,962	64,838	71,500	60,260	110,294
Law Enforcement & Security	371,520	416,936	14,113	29,688	40,739	23,031
Operations, Maintenance	226,082	288,044	211,119	249,758	364,019	336,372
Personnel - Wages, Taxes & Benefits	1,424,023	1,548,961	1,900,034	1,950,800	2,185,687	2,322,482
Utilities	351,543	352,555	374,806	335,851	437,229	564,160
Other	48,640	32,248	51,005	50,002	88,720	113,868
Depreciation and Amortization	1,851,172	1,944,902	2,236,217	2,366,149	2,820,726	3,155,071
Total Operating Expenses	4,485,242	4,847,681	5,073,212	5,273,859	6,199,716	6,891,502
Net Operating Revenue						
(Operating Income/Loss)	247,444	341,462	43,331	(59,957)	210,029	129,137
Plus: Non-Operating Revenues	659,930	577,630	357,407	(69,751)	(261,015)	(375,885)
Plus: Depreciation and Amortization	1,851,172	1,944,902	2,236,217	2,366,149	2,820,726	3,155,071
Net Revenue Available for Debt Service	2,758,546	2,863,994	2,636,955	2,236,441	2,769,740	2,908,323
Plus: Passenger Facility Charges	767,227	817,883	955,384	1,281,823	1,473,313	1,583,069
Pledged Revenue Available for Debt Service	3,525,773	3,681,877	3,592,339	3,518,264	4,243,053	4,491,392
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**	**10.62**	**6.87**
Maximum Annual Debt Service Requirement	**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**	**3.71**	**3.93**

GAA Bond Reporting

Historical Cash & Investment Balance

	Audited 2004-2005	Audited 2005-2006	Audited 2006-2007	Audited 2007-2008	Audited 2008-2009	Audited 2009-2010	Audited 2010-2011	Audited 2011-2012
Cash & Investments as of 7/1	9,160,266	9,279,280	10,068,413	13,895,506	16,223,194	13,696,411	21,043,082	5,319,934
Cash Income	4,081,244	4,860,502	4,909,182	5,049,305	5,173,558	5,251,111	6,141,263	7,374,859
Cash Expense	(2,146,438)	(2,567,667)	(2,599,296)	(2,867,241)	(2,901,917)	(2,897,399)	(3,437,806)	(3,621,692)
Interest & investment income	213,825	482,297	641,930	559,630	357,407	356,700	419,569	309,823
County Tax	275	-	-	-	-	-	-	-
Reclamation	8,000	12,000	18,000	18,000	-	-	-	-
PFC & CFC Revenue	775,236	752,015	767,227	825,526	839,432	1,532,544	1,863,651	1,956,150
Grant Revenue	3,673,411	2,728,804	1,168,412	3,384,988	(17,821)	5,917,950	6,281,230	4,347,500
Capital Improvements	(6,486,539)	(5,478,818)	(1,078,362)	(4,642,520)	(5,977,442)	(18,073,137)	(26,337,569)	(5,169,833)
Bond Proceeds (less issuance and int cost)						15,258,902	(653,486)	(653,486)
Contributed Capital								560,687
Cash & Investments as of 6/30	9,279,280	10,068,413	13,895,506	16,223,194	13,696,411	21,043,082	5,319,934	10,423,942

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 2012		June 30 2011	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	6,404,065	$	1,800,924
Investments		1,148,636		1,145,833
Receivables				
Customers, net		1,015,453		890,587
Grant		2,547,497		3,317,693
Passenger facility charges		301,610		224,255
Prepaid expenses		113,580		145,071
		11,530,841		7,524,363
OTHER ASSETS				
Bond issue cost, net		260,452		287,550
Intangible asset, net		257,951		274,593
Restricted cash and cash equivalents		2,871,241		2,373,177
		3,389,644		2,935,320
PROPERTY, PLANT AND EQUIPMENT				
Land		9,951,856		9,951,856
Runways and improvements		35,840,723		32,565,255
Buildings and equipment		74,984,590		28,520,520
Construction in progress		26,976		45,115,980
		120,804,145		116,153,611
Accumulated depreciation		(34,371,793)		(31,747,538)
		86,432,352		84,406,073
Total assets	$	101,352,837	$	94,865,756
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Payable from unrestricted assets				
Accounts payable	$	53,234	$	982
Deposits		477,465		-
Compensated absences		248,111		217,115
Deferred revenue		39,740		38,121
Current portion of 2009 revenue bonds payable		460,000		-
		1,278,550		256,218
LONG-TERM LIABILITIES				
2009 revenue bonds payable, less current portion		15,540,000		16,000,000
Total liabilities		16,818,550		16,256,218
NET ASSETS				
Invested in capital assets, net of related debt		70,950,755		68,968,216
Restricted for capital projects and debt service		4,321,487		3,743,265
Unrestricted		9,262,045		5,898,057
Total net assets		84,534,287		78,609,538
Total liabilities and net assets	$	101,352,837	$	94,865,756

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	
	2012	2011
OPERATING REVENUES		
Landing fees	$ 555,505	$ 521,056
General aviation	470,283	469,563
Terminal building rents	1,573,628	1,297,445
Concessionaires	2,030,407	1,952,099
Parking lot	1,660,422	1,413,765
Other	730,396	755,817
	7,020,641	6,409,745
OPERATING EXPENSES		
Accounting and auditing	13,250	14,610
Additional security	23,031	40,739
Advertising	4,446	3,805
Aircraft rescue and fire fighting	24,396	23,661
Amortization	16,642	16,642
Control tower	68,008	62,729
Customs	69,761	-
Deposit refunds	2,075	21,828
Depreciation	3,138,429	2,804,084
Dues and subscription	17,416	15,040
Insurance	110,294	60,260
Lease	12,000	12,000
Legal	5,446	4,093
Miscellaneous	42,032	66,892
Office	30,762	30,612
Payroll taxes and insurance	607,814	581,427
Professional services	14,929	12,586
Repairs and maintenance	387,063	364,914
Salaries and wages	1,714,668	1,604,260
Telephone	7,410	6,649
Travel and training	17,470	15,656
Utilities	564,160	437,229
	6,891,502	6,199,716
Operating income	129,139	210,029
NONOPERATING REVENUES (EXPENSES)		
Interest income	309,823	419,569
Amortization of bond issuance costs	(27,098)	(27,098)
Loss on disposal of property, plant and equipment	(5,124)	-
Interest expense	(653,486)	(653,486)
	(375,885)	(261,015)
CAPITAL CONTRIBUTIONS REVENUE		
Passenger facility charges	1,583,069	1,473,313
Customer facility charges	450,436	420,987
Grants	3,577,303	9,049,395
Other	560,687	-
	6,171,495	10,943,695
CHANGE IN NET ASSETS	5,924,749	10,892,709
Net assets at beginning of year	78,609,538	67,716,829
NET ASSETS AT END OF YEAR	$ 84,534,287	$ 78,609,538

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

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating cash receipts from customers	$ 7,374,859	$ 6,141,263
Cash payments to suppliers for goods and services	(1,938,020)	(1,856,251)
Cash payments to employees for services	(1,683,672)	(1,581,555)
Net cash provided by operating activities	3,753,167	2,703,457
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net purchases of property, plant and equipment	(5,169,833)	(26,337,569)
Grant receipts	4,347,500	6,281,230
Passenger facility charge receipts	1,505,714	1,442,664
Customer facility charge receipts	450,436	420,987
Contributed capital	560,687	-
Bond interest payments	(653,486)	(653,486)
Net cash provided (used) by capital and related financing activities	1,041,018	(18,846,174)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	7,456,337
Purchase of investments	(2,803)	(36,380)
Interest received	309,823	419,569
Net cash provided by investing activities	307,020	7,839,526
NET INCREASE (DECREASE) IN CASH	5,101,205	(8,303,191)
Cash and cash equivalents at beginning of year	4,174,101	12,477,292
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,275,306	$ 4,174,101
STATEMENT OF NET ASSETS CASH		
Unrestricted	$ 6,404,065	$ 1,800,924
Restricted	2,871,241	2,373,177
	$ 9,275,306	$ 4,174,101

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

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended June 30	
	2012	**2011**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 129,139	$ 210,029
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,138,429	2,804,084
Amortization	16,642	16,642
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(124,866)	(256,703)
Prepaid expenses	31,491	(75,058)
Increase (decrease) in:		
Accounts payable	52,252	(6,463)
Deposits	477,465	-
Compensated absences payable	30,996	22,705
Deferred revenue	1,619	(11,779)
Net cash provided by operating activities	$ 3,753,167	$ 2,703,457

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 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 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.

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:*
  *Nonexpendabl*e - 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 2012 and 2011.

E) Inventories

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K) Subsequent Events

Management has evaluated subsequent events through December 4, 2012, 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.

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, 2012 and 2011, was as follows:

	2012		2011	
	Cost	Market Value	Cost	Market Value
Cash and Cash Equivalents				
Operating Account	$ 4,188,727	$ 4,188,727	$ 893,905	$ 893,905
Capital Account	2,215,338	2,215,338	907,019	907,019
	6,404,065	6,404,065	1,800,924	1,800,924
Other Assets - Restricted				
Operating Reserve Account	1,018,438	1,018,438	890,652	890,652
Customs Account	122,117	122,117	-	-
Air Service Account	320,070	320,070	-	-
Construction Account	-	-	436,748	436,748
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	1,106,159	1,106,159	741,320	741,320
	2,871,241	2,871,241	2,373,177	2,373,177
	$ 9,275,306	$ 9,275,306	$ 4,174,101	$ 4,174,101
Investments				
Debt Service Reserve Account	$ 1,148,636	$ 1,148,636	$ 1,145,833	$ 1,145,833

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 $22,698 and $22,630 in 2012 and 2011, 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, 2012 and 2011 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.

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	Employees hired prior to July 1, 2012	Employees hired after June 30, 2012	State of Montana	Total
2012	7.070%	6.9%	7.9%	.1%	14.070% - 15.070%
2011	7.070%	6.9%	n/a	.1%	14.070%
2010	7.070%	6.9%	n/a	.1%	14.070%

The amounts contributed to the plan during the years ended June 30, 2012 and 2011, 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
2012	$ 1,750,639	$ 123,770	$ 121,104
2011	$ 1,650,669	$ 116,702	$ 113,896
2010	$ 1,479,410	$ 104,594	$ 102,079

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, 2012 and 2011 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.

	2012	2011
Summary of PFC transactions:		
Sources:		
PFC collections cumulative to June 30	$ 14,038,450	$ 12,532,741
Interest earned	273,873	261,207
Total sources	14,312,323	12,793,948
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	1,706,325	1,052,839
	5,126,373	4,472,887
Cost of improvements	8,079,791	7,579,741
Total uses	13,206,164	12,052,628
PFC Reserve Account at June 30	$ 1,106,159	$ 741,320

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

	June 30, 2011	Additions	Disposals	June 30, 2012
Land	$ 9,951,856	$ -	$ -	$ 9,951,856
Runways & improvements	32,565,255	3,275,468	-	35,840,723
Buildings & equipment	28,520,520	46,993,974	(529,904)	74,984,590
Construction in progress	45,115,980	-	(45,089,004)	26,976
	116,153,611	50,269,442	(45,618,908)	120,804,145
Less accumulated depreciation	(31,747,538)	(3,138,429)	514,174	(34,371,793)
Net fixed assets	$ 84,406,073	$ 47,131,013	$ (45,104,734)	$ 86,432,352

	June 30, 2010	Additions	Disposals	June 30, 2011
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

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:

	2012	2011
OTHER ASSETS		
Intangible asset, net	$ 257,951	$ 274,593
Bond issue cost, net	260,452	287,550
	518,403	562,143
PROPERTY, PLANT AND EQUIPMENT		
Land	9,951,856	9,951,856
Runways and improvements	35,840,723	32,565,255
Buildings and equipment	74,984,590	28,520,520
Construction in progress	26,976	45,115,980
Accumulated depreciation	(34,371,793)	(31,747,538)
	86,432,352	84,406,073
LESS: CURRENT LIABILITIES		
Current portion of bonds payable for amount invested in capital assets	460,000	-
LESS: LONG-TERM LIABILITIES		
Bonds payable for amount invested in capital assets, less current portion	15,540,000	16,000,000
Invested in Capital Assets, Net of Related Debt	$ 70,950,755	$ 68,968,216

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

	2012	2011
CURRENT ASSETS		
Investments	$ 1,148,636	$ 1,145,833
Receivables		
Passenger facility charges	301,610	224,255
	1,450,246	1,370,088
OTHER ASSETS		
Restricted cash and cash equivalents	2,871,241	2,373,177
Restricted for Capital Projects and Debt Service	$ 4,321,487	$ 3,743,265

7. NET ASSETS (Continued)

C. Unrestricted Assets consists of the following:

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 6,404,065	$ 1,800,924
Receivables		
Customers, net	1,015,453	890,587
Grants	2,547,497	3,317,693
Prepaid expenses	113,580	145,071
	10,080,595	6,154,275
LESS: CURRENT LIABILITIES		
Payable from unrestricted assets		
Accounts payable	53,234	982
Deposits	477,465	-
Compensated absences	248,111	217,115
Deferred revenue	39,740	38,121
Total Liabilities Payable from Unrestricted Assets	818,550	256,218
Unrestricted Net Assets	$ 9,262,045	$ 5,898,057

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

2013	$ 3,335,279
2014	$ 1,795,598
2015	$ 855,835
2016	$ 313,192
2017	$ 288,546

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, 2012. 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. 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.

10. RELATED PARTIES

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 2012 and 2011 was $2,484 per year.

John McKenna (Board Member) and two unrelated parties entered into a 10-year lease with the Airport beginning May 1, 2001. Lease revenue for 2012 and 2011 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 2012 and 2011 was $1,874 per year.

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

11. 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 2012 and 2011, 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 Airport Authority. 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.

12. RESTRICTED BOND CASH AND INVESTMENT ACCOUNTS

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

	Fair Value 2012	Fair Value 2011
Debt Service Account	$ 54,457	54,457
Debt Service Reserve Fund	1,148,636	1,145,833
	$ 1,203,093	$ 1,200,290

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.

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
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		$ 9,117,903	$ 25,117,903

13. 2009 REVENUE BONDS (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

14. RECLASSIFICATIONS

Certain amounts in the fiscal year 2011 financial statements have been reclassified to conform to the fiscal year 2012 presentation.

C. SUPPLEMENTAL INFORMATION

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF IN-FORCE INSURANCE
June 30, 2012

Insurer	Coverage	Amount	Expires	Annual Premium
Allied Insurance Company	Commercial Buildings	$ 74,632,910	8/10/12	$ 73,854
Cincinnati Insurance	Commercial Auto	$ 3,000,000	8/10/12	$ 8,318
	Inland Marine	$ 1,918,712	8/10/12	$ 3,640
	Boilers and Machinery (included in property)			
Allied Insurance Company	Public Employees Crime Policy	$ 50,000	8/10/12	$ 400
Old Republic	Directors & Officers Liability and Employment Practices Liability	$ 1,000,000	8/10/12	$ 3,728
ACE Property & Casualty	Airport Liability	$ 30,000,000	8/10/12	$ 9,500
Darwin Professional Underwriters, Inc.	Law Enforcement Liability	$ 2,000,000	8/10/12	$ 4,248

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, 2012, and have issued our report thereon dated December 4, 2012. 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

Management of Gallatin Airport Authority is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that we consider to be material weaknesses, as defined above.

Bozeman • Great Falls • Hamilton • Helena • Kalispell • Missoula • Whitefish

<u>Compliance and Other Matters</u>

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
December 4, 2012

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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, 2012. 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, 2012.

Bozeman • Great Falls • Hamilton • Helena • Kalispell • Missoula • Whitefish

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
December 4, 2012

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS,
AS REQUIRED BY OMB CIRCULAR A-133
For the Year Ended June 30, 2012

Financial Statements

Type of auditors' report issued	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	no
Significant deficiencies identified not considered to be material weakness?	no
Non-compliance material to financial statements noted?	no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	no
Significant deficiencies identified not considered to be material weakness?	no
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

Findings

None

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

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	116,445
Project No. 3-30-0010-34	20.106	5,910,336	517,407
Project No. 3-30-0010-38	20.106	125,000	25,560
Project No. 3-30-0010-39	20.106	2,263,608	164,815
Project No. 3-30-0010-40	20.106	2,675,509	202,934
U.S. DEPARTMENT OF HOMELAND SECURITY			
TSA Airport Checked Baggage Inspection Program (ARRA)	97.117	3,266,866	345,119
TOTAL FEDERAL AWARDS		$ 16,696,698	$ 1,372,280

<u>Notes to Schedule of Federal Awards:</u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

<u>Basis of Accounting:</u>

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, 2012 has been subjected to the applicable compliance testing requirements prescribed by OMB Circular A-133.

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.

PART IV

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

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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, 2012. 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, 2012.

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
December 4, 2012