GALLATIN AIRPORT AUTHORITY

AUDITED FINANCIAL STATEMENTS

June 30, 2010 and 2009

GALLATIN AIRPORT AUTHORITY
CONTENTS

PART I

INTRODUCTORY SECTION

GALLATIN AIRPORT AUTHORITY
June 30, 2010

ORGANIZATION

BOARD OF COMMISSIONERS

Steve Williamson	Chair
John McKenna	Vice Chair
Kevin Kelleher	Secretary
Richard Roehm	Member
Greg Metzger	Member

AIRPORT DIRECTOR

Brian Sprenger, A.A.E.

DEPUTY AIRPORT DIRECTOR

Scott Humphrey, C.M.

OFFICE MANAGER

Cherie Ferguson

PART II

FINANCIAL SECTION

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Gallatin Airport Authority
Belgrade, Montana

We have audited the accompanying financial statements of the Gallatin Airport Authority as of and for the years ended June 30, 2010 and 2009. 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, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010 on our consideration of the Gallatin Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of in-force insurance and boardings listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Gallatin Airport Authority. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2010 is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the Gallatin Airport Authority. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2009 is also presented for purposes of additional analysis, and is not a required part of the basic financial statements of the Gallatin Airport Authority. The schedules of in-force insurance, boardings and the 2010 and 2009 schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subject to auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

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

Bozeman, Montana
November 4, 2010

A. MANAGEMENT DISCUSSION AND ANALYSIS

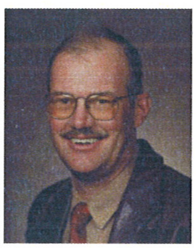
Gallatin Airport Authority Year in Review FY 2010

Annual Report FY 2010

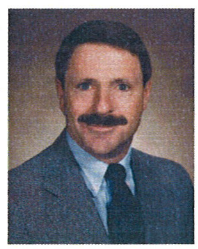
Inside this issue:

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, 2010. The discussion and analysis should be read in conjunction with the entire 2010 fiscal year annual audit. This discussion and analysis consists of the following financial statements so that the reader can understand the financial condition of the Gallatin Airport Authority:

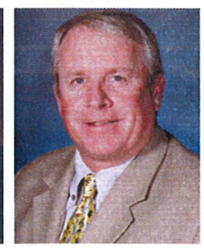
- Activity Highlights – Detail of activities at Gallatin Field that affect the financial performance of the Gallatin Airport Authority
- Financial Highlights – Detail of the FY 2010 Gallatin Airport Authority income and expenditures
- Changes in Net Assets – Detail of activities that contributed to the changes in net assets during FY 2010
- Statement of Net Assets – Detail of Assets, Liabilities and Net Assets (Equity)


Steve Williamson
Chair


Greg Metzger
Vice-chair


John McKenna, Jr.
Secretary


Richard R. Rohem
Member


Kevin Kelleher
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 Director:
Scott Humphrey, C.M.

Assistant Director:
Paul Schneider

Chief, Public Safety:
Bill Dove

Office Manager:
Cherie Ferguson

Office Assistants:
Jody Boyd
Connie Janzer

Building Maintenance Supervisor:
Tim Garton

Operations Supervisor:
Chuck Rasnick

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

Public Safety Officers:
Kerry Bickle
Bryan Adams
Levi Talkington
Ken Dove
Jeff McRae
Alan Parker

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

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

Fiscal year 2010 was quite simply a busy year for the Gallatin Airport Authority. After years of planning, we broke ground on the $45 million dollar terminal expansion in July, 2009. This two year project is creating a world-class terminal building while maintaining what makes Montana special in its design. Upon completion, it will be capable of handling nearly two million passengers per year and provide a much improved travel experience with expanded concession opportunities. Interestingly, the terminal expansion was not the only construction project at Gallatin Field last year. We also completed a new $3 million dollar consolidated rental car service facility. This facility was the result of bringing all eight of the major rental car brands into the terminal building last year.

Obviously, financing these capital improvement projects was a primary focus during the year. The terminal project is being funded through a combination of FAA entitlement and discretionary grants, a TSA security grant, Passenger Facility Charges, Rental Car Customer Facility Charges, a $16 million dollar bond offering and from the internal airport capital improvement fund while the consolidated rental car service facility will be funded wholly through the Rental Car Customer Facility Charge. The bonds will be paid off over time through the collection of Passenger Facility Charges. Both projects are 100% funded.

In addition to the new rental car concession agreements, we also completed new concession agreements for our food and beverage concession, gift shop concession, pay parking lot concession and ground transportation concession. Overall, these new agreements are expected to increase airport revenues by approximately $400,000 annually.

On the air service front, we saw expanded and improved service to several markets including Chicago, San Francisco, Los Angeles, Seattle and Phoenix-Mesa. While fiscal year enplanements were down slightly from the previous record fiscal year, we have seen consecutive all-time record enplanement months in July and August of 2010. So far this year, Gallatin Field Airport has enplaned more passengers than any other airport in Montana during the months of January, February, March, July, August and September. Based on these trends, there is a very good chance that calendar year 2010 will end with all-time record enplanements. On the corporate and general aviation side of the house, we have recently seen a rebound in operations and remain hopeful that these trends will continue as well.

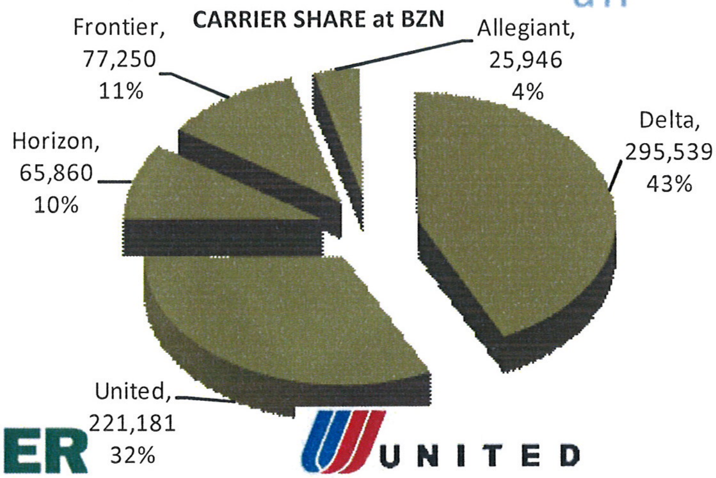
As if all this was not enough, President Obama visited Gallatin Field in August 2009, Vice President Biden visited in July 2010, and May of 2011, the Asia Pacific Economic Cooperation (APEC) Trade Ministerial will be held in Big Sky and will bring cabinet-level trade and other ministers from 21 APEC Member Nations to Montana where they can discuss in depth world trade and economic matters with all of them passing through Gallatin Field. Southwest Montana has been found.

None of our accomplishments over the past year could have occurred without the friendly and professional staff of the Gallatin Airport Authority. Our staff of 30 which includes Maintenance/Aircraft Rescue and Fire Fighting, Custodial, Public Safety and Administration staff are among the best in the country and are highly accomplished. We are very fortunate to have a staff of such caliber who each have a "can do" attitude and who day-in and day-out constantly strive to make Gallatin Field the first-class airport that it is.

In this industry, change is inevitable and while FY 2010 was a successful year for the Gallatin Airport Authority, we continue to have a watchful eye on events and challenges that can change minute by minute. We strive to be flexible to change while ensuring that our stewardship of this public airport maintains its continued viability and success. We hope that this report will provide valuable information on the status of your airport. We welcome and value your input on how we can better serve you at Gallatin Field.

Activity Highlights - Enplanements (0.95%)

Overall, Gallatin Field Airport saw a slight reduction in enplanements as 343,751 revenue passengers boarded flights in FY 2010. Over the same timeframe, U.S. domestic enplanements were down (1.6%) according to the Bureau of Transportation Statistics. Gallatin Field Airport serviced 686,719 passengers, a 0.66% reduction in total passengers amidst US domestic capacity and service reductions reflecting a continued weak global economy. In contrast to our Fiscal Year, Calendar Year numbers saw record enplanements in the months of March, April, June, July, August, September and October. Gallatin Field is positioned to set record enplanements for Calendar Year 2010.



Year Round Non-Stop Destinations:

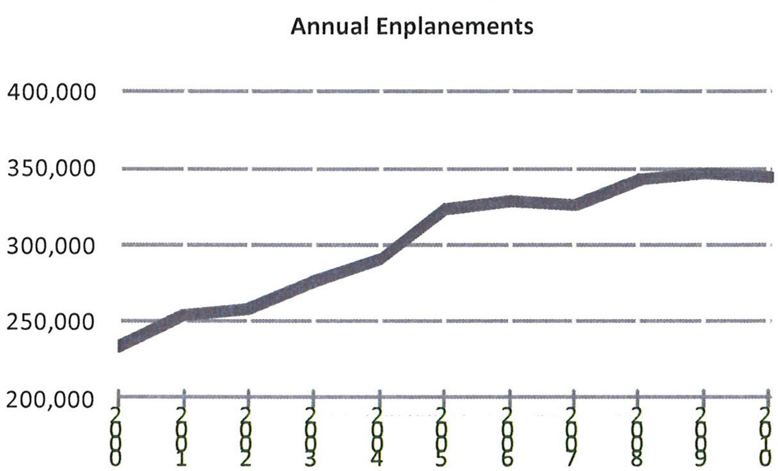
Denver
Minneapolis
Chicago
Seattle
Salt Lake City
Las Vegas
Phoenix, Mesa

Seasonal Non-Stop Destinations:

Atlanta
San Francisco
Los Angeles
Detroit

"Gallatin Field is positioned to set record enplanements for Calendar Year 2010."

Airline	FY 2010 Seats	FY 2010 Enplanements	FY 2010 Load Factor %
Delta	176,034	147,267	83.7
United	133,350	111,537	83.6
Frontier	51,562	39,051	75.7
Horizon	42,588	32,511	76.3
Allegiant	16,050	12,934	80.6



Top Ten Destinations:

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

Tower Operations (10.3%)

Tower operations declined 10.3% in FY 2010 with 67,141 operations. Operations include IFR itinerant, VFR itinerant and local operations at the airport as reported by Air Traffic Control Tower (ATCT). The largest decline took place within the local general aviation community with 23,693 operations vs. 30,012 operations in FY 2009. The economy coupled with higher fuel costs changed behaviors as general aviation, including business aviation, was susceptible to the sluggish economy and high fuel costs just like the general population. We don't expect to see sustained growth in the general aviation community until we see sustained growth in the general economy.

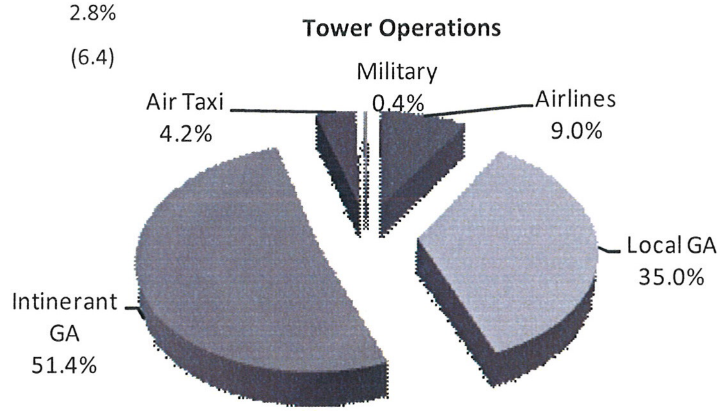
OPERATIONS	FY 2010	% CHANGE FROM FY 2009
AIRLINES	7,307	(6.5)
AIR TAXI	9,269	(0.9)
ITINERANT GENERAL AVIATION	26,608	(3.6)
LOCAL GENERAL AVIATION	23,693	(21.1)
MILITARY	264	3.5

"The economy coupled with higher fuel costs changed behaviors as general aviation, including business aviation, was susceptible to the sluggish economy and high fuel costs just like the general population. "

Fuel Flowage Income (2.7)%

Fuel flowage income decreased 2.7% to $100,367. Leading the decline was the sale of general aviation (GA) fuel (Avgas) down 6.4% which corresponds with the decline in general aviation operations. Jet A (non airline) fuel sales increased 2.8% due to military traffic associated with the president's visit in August, 2009. Gallatin Field receives $.06 for every gallon pumped of Avgas and non-airline, non-government Jet A fuel.

	2010	
Jet A—Airlines	4,072,626	(.04)
Jet A	1,619,534	2.8%
Avgas	154,89	(6.4)



Cargo, Express & Mail 11.4%

Total cargo, express and mail increased 11.4% to 4,505,348 lbs. handled in FY 2010 compared to 4,043,000 in FY 2009. FedEx moves 75% of all cargo through Gallatin Field followed by UPS at 18.6% and individual airlines at 6.4%.

Carrier	2010	% Change from 2009
FedEx	3,368,000	21.0
UPS	826,823	17.4
Airlines	310,525	(7.6)

Rental Car Revenue 10.9%

Rental car income was up 10.9% to $1,493,842. As of October, 2009, all car rental agencies are located within the airport terminal building. Car rental agencies pay the Airport Authority a 10% commission fee. In addition, rental agencies pay terminal rent for counter space, parking stalls and a facility charge for maintenance of their respective facilities.

This spring, the airport completed construction of a $3 million dollar consolidated rental car facility supported entirely by car rental user fees. This facility co-locates washing, vacuuming and fueling of rental cars in one central location. Additionally, 85% of the car wash water is reclaimed, filtered and reused.

Centralizing rental car operations along with the planned relocation of car rental parking will dramatically reduce the number of rental cars on terminal roadways and help minimize the airport's overall traffic flow around the passenger terminal.

Parking Revenue (1.4%)

Gross revenue from parking operations fell 1.6% to $1,336,315 while net revenue fell 1.4% to $1,078,829 dollars. Average daily transactions (cars leaving the parking lot) fell 7.4% from 507 daily transactions in FY 2009 to 469 daily transactions in FY 2010. Average revenue per transaction increased 6.3% to $7.80 in FY 2010 vs. $7.34 in FY 2010. Going forward, the airport has invested in additional automation and software enhancements that will streamline parking operations while enhancing the customer experience. The airport has unveiled the ***Express Pay*** exit stations utilizing credit card in/credit card out software acceptable at all entrance and exit stations.

"Centralizing rental car operations should reduce the number of rental cars on terminal roadways."

Food & Retail Revenue 6.4% & Ground Transportation Revenue (5.7%)

Food and retail concession fees increased 6.3% to $272,807. The airport gift shop commission increased 10.4% while commissions from the airport restaurant fell 4.2%. The airport recently put out a request for proposals and awarded operations of the gift concession and restaurant operations to Sharbert Enterprises, current operator of the airport gift shop (Montana Gift Corral). With the scheduled opening of the terminal expansion slated for summer, 2011, the main restaurant will be relocated to the terminal addition behind security. This relocation should alleviate concerns of many restaurant patrons regarding time allocation prior to entering the security checkpoint.

Ground Transportation concession fees fell 5.7% to $59,018. Seven providers operate cab, bus and limo service out of Gallatin Field Airport. The airport receives a concession fee of $1.50 per-passenger for the service. 21,216 passengers used services of these seven companies with the remaining revenue coming from minimum annual guarantees (MAG).

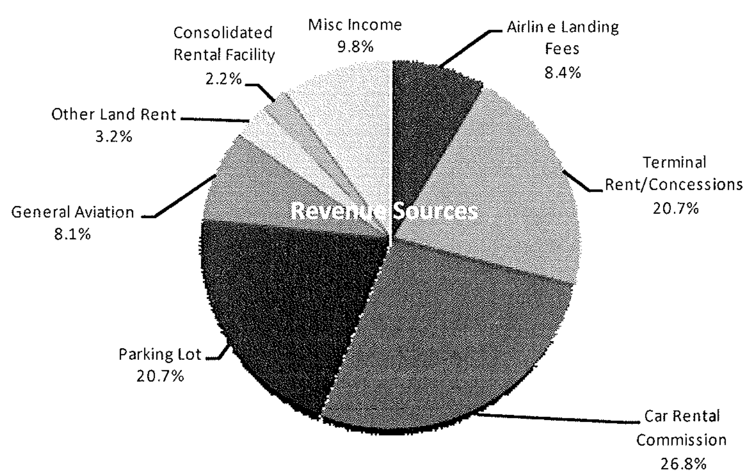
Statement of Net Assets FY 2010: Presents the financial position of the Gallatin Airport Authority at the end of the fiscal year 2010. The statement includes all assets and liabilities and indicates the current financial health of the Gallatin Airport Authority. Total assets increased $23,572,883 to $83,968,584 including proceeds from the 2009 Bond offering while Net Assets increased $7,844,159 to $67,716,829. Liabilities increased $15,728,724 with issuance of the 2009 PFC backed Revenue Bonds for terminal construction. A summary comparison is to the right:

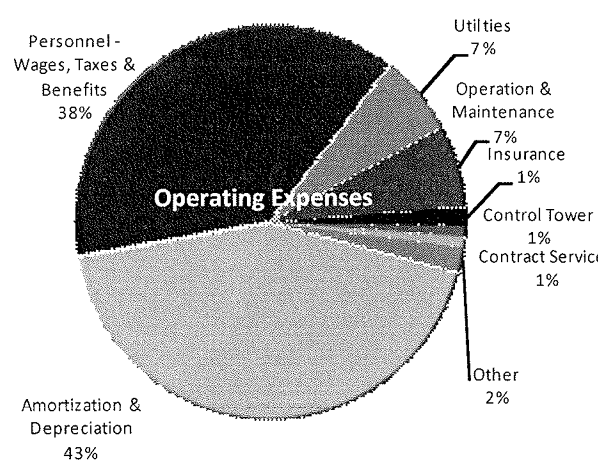
(1) Airport Master Plan, Bond Issuance Cost.

Statement of Net Assets	FY 2010	FY 2009
Cash & Equivalents	$6,057,446	$1,409,102
Investments	$8,565,790	$10,896,859
Restricted Cash & Equivalents	$6,419,846	$1,390,450
Receivable/Prepaid Expense	$1,447,032	$941,119
Property, Plant & Equipment (Including Accumulated Depreciation)	$60,872,588	$45,450,294
Other Assets (1)	$605,882	$307,877
Total Assets	**$83,968,584**	**$60,395,701**
Current Liabilities	$251,755	$523,031
Long-Term Liabilities 2009 Bonds	$16,000,000	$0
Total Liabilities	**$16,251,755**	**$523,031**
Net Assets Invested in Capital	$51,862,033	$45,758,171
Net Assets-Restricted	$1,374,009	$1,308,875
Net Assets-Unrestricted	$14,480,787	$12,805,624
Total Net Assets	**$67,716,829**	**$59,872,670**
Total Liabilities & Net Assets	**$83,968,584**	**$60,395,701**

Capital Contributions:
Increased by $7,036,304 from $937,563 in FY 2009 to $7,973,867 in FY 2010.

Changes in Net Assets	FY 2010	FY 2009
Operating Revenue	$5,213,902	$5,116,543
Operating Expense (including Depreciation and Amortization)	$(5,273,859)	$(5,073,212)
Operating Income (Loss)	**$(59,957)**	**$43,331**
Non-Operating Income (Expense)	$(69,751)	$357,407
Total Capital Contributions	$7,973,867	$937,563
Increase in Net Assets	**$7,844,159**	**$1,338,301**





Cash Management

Cash Flow:
Cash income rose 1.5% while cash payments decreased .02%. Net cash provided by operations increased 3.5%.

Net Purchases Property, Plant and Equipment:
In FY 2010, the terminal expansion project required significant expenditures in the areas of: site preparation, excavation, foundations, structural steel and mechanical systems. Offsetting the expense were proceeds from the Airport Authority Bond Offering, Passenger Facility Charges, and entitlement grants from the Airport Improvement Program and a Security Grant from the TSA.

Non-Operating Activities:
The airport is managing a portion of Bond proceeds through the investment and sale of short and medium term Certificates of Deposit.

Net Increase in Cash:
The airport's cash position increased by $9,677,740. Although this position is temporary, the airport will closely manage liquidity throughout the terminal project.

FY 2010 Actual to Budget Comparison:
The Gallatin Airport Authority budget is prepared according to provisions in the Airport Authorities Use and Lease Agreement and in accordance with budget requirements of the Gallatin County Commission. Operating revenues were 13% better than budget while operating expenses were 8% below budget. Capital Expenditures (for the terminal project) were budgeted at $20,568,512 while actual expenditures came in at $17,660,671 due to timing of the project and payments. Capital Improvement Funding provided $9,816,643 for projects derived from Bond proceeds and operating cash.

Statement of Cash Flows	FY 2010	FY 2009
Cash Income	$5,251,111	$5,173,558
Cash Payments	$(2,897,398)	$(2,901.917)
Net Cash Provided by Operations	**$2,353,713**	**$2,271,641**
Cash From Non-Operating Activities	**FY 2010**	**FY 2009**
Net Purchases Property, Plant & Equipment	$(18,073,137)	$(5,960,800)
Master Plan	$0	$(16,642)
PFC Receipts	$1,307,979	$839,432
CFC Receipts	$224,565	$0
PSO Grant (Bullet Proof Vests)	$2,100	$0
Grants	$5,915,850	$(17,821)
Bond Proceeds (less issuance cost and interest payments)	$15,258,902	$0
Net Cash Used by Non-Operating Activities	**$4,636,259**	**$(5,155,831)**
Investments Sold (CDs)	$3,633,362	$0
Investments Purchased (CDs)	(1,144,120)	$0
Interest Received	$198,526	$33,069
Net Cash Provided by Investing	**$2,687,768**	**$33,069**
Cash and Cash Equivalents at Beginning of the Year	$2,799,552	$5,650,673
Cash and Cash Equivalents at End of the Year	$12,477,292	$2,799,552
Net Increase (Decrease) in Cash	**$9,677,740**	**$(2,851,121)**

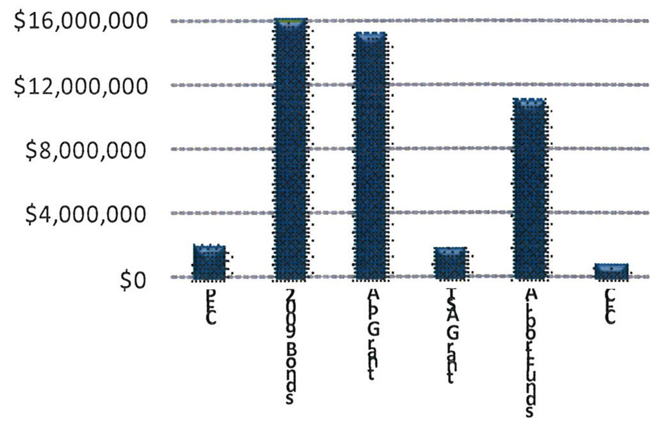
Actual to Budget Comparison	FY 2010 Actual	FY 2010 Budget
Operating Revenue	$5,213,902	$4,820,241
Non-Operating Revenue (Expense)	$(69,751)	$310,501
Grants	$5,917,950	$6,813,906
PFC Income	$1,307,979	$750,000
CFC Revenue	$224,565	$0
Capital Improvement Fund	$7,973,867	$11,685,108
Total Income	**$20,568,512**	**$24,379,756**
Total Operating Expense (Not Including Depreciation or Amortization)	$(2,907,710)	$(3,143,725)
Interchange	$0	$500,000
Capital Expenditures	$(17,660,802)	$(20,736,032)
Total Expenditures	**$(20,568,512)**	**$(24,379,756)**

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.

Capital Improvement, Funding & Projects:

Sources of Terminal Funding



Capital improvements for FY 2010 revolved around the terminal expansion project and consolidated car rental facility. The Airport Authority broke ground July 9, 2009 on the expansion project designed to add approximately 125,000 square feet to the main lobby and 2nd level of the terminal. The terminal expansion is scheduled for completion next summer, 2011.

The majority of funding for the expansion project comes from three (3) primary sources: airport bonds, airport funds, and the Airport Improvement Program (AIP). No local tax revenue will be used for the project. On October 21, 2009, the Airport Authority issued a public bond offering in the amount of $16,000,000. These bonds are secured by revenue from airport operations and backed by Passenger Facility Charges (PFC). Airport funds account for over $11,000,000 of the project; these funds come from users fees, airport rents and commissions. The Airport Improvement Program (AIP) accounts for another $15,000,000 of the project. AIP funds are federal grants drawn from the Airport and Airway Trust fund which is supported by user fees, fuel taxes, and similar revenue sources. The Federal Aviation Agency distributes these grants based on national priorities and objectives for eligible airports.

The remaining 10% of project funding comes from Federal Discretionary grants, Passenger Facility Charges (PFC) and car rental Customer Facility Charges (CFC).

On any given day, the terminal project employs approximately 100 local craft and tradesmen from the Gallatin Valley and surrounding communities.

For additional information about this report please contact:
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Gallatin Airport Authority
850 Gallatin Field Rd., Suite 6
Belgrade, MT 59714
or email info@gallatinfield.com

B. BASIC FINANCIAL STATEMENTS

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF NET ASSETS

	June 30	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,057,446	$ 1,409,102
Investments	8,565,790	10,896,859
Receivables		
Customers, net	633,884	666,065
Grant	549,529	-
Passenger facility charges	193,606	219,761
Prepaid expenses	70,013	55,293
	16,070,268	13,247,080
OTHER ASSETS		
Bond issue cost, net	314,647	-
Intangible asset, net	291,235	307,877
Restricted cash and cash equivalents	6,419,846	1,390,450
	7,025,728	1,698,327
PROPERTY, PLANT AND EQUIPMENT		
Land	9,951,856	9,951,856
Runways and improvements	32,342,890	30,078,707
Buildings and equipment	28,079,194	24,545,126
Construction in progress	19,442,102	7,468,552
	89,816,042	72,044,241
Accumulated depreciation	(28,943,454)	(26,593,947)
	60,872,588	45,450,294
TOTAL ASSETS	$ 83,968,584	$ 60,395,701
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable from unrestricted assets		
Accounts payable	$ 7,445	$ 7,860
Accrued construction contracts payable	-	301,336
Compensated absences	194,410	168,963
Deferred revenue	49,900	44,872
	251,755	523,031
LONG-TERM LIABILITIES		
2009 revenue bonds payable	16,000,000	-
TOTAL LIABILITIES	16,251,755	523,031
NET ASSETS		
Invested in capital assets, net of related debt	51,862,033	45,758,171
Restricted for capital projects and debt service	1,374,009	1,308,875
Unrestricted	14,480,787	12,805,624
TOTAL NET ASSETS	67,716,829	59,872,670
TOTAL LIABILITIES AND NET ASSETS	$ 83,968,584	$ 60,395,701

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	
	2010	2009
OPERATING REVENUES		
Landing fees	$ 466,433	$ 484,272
General aviation	447,042	429,327
Terminal building rents	1,115,228	1,121,782
Concessionaires	1,552,861	1,515,584
Parking lot	1,078,829	1,093,973
Security income	5,045	3,475
Restricted for pavement preservation	12,500	10,000
Other	535,964	458,130
	5,213,902	5,116,543
OPERATING EXPENSES		
Accounting and auditing	7,900	7,500
Additional security	29,688	14,113
Advertising	4,620	664
Aircraft rescue and fire fighting	21,495	21,002
Amortization	16,642	16,642
Contract services	17,534	8,544
Control tower	70,514	57,276
Deposit refunds	(4,870)	8,219
Depreciation	2,349,507	2,219,575
I-90 interchange fund	-	11,998
Dues and subscription	17,426	14,322
Insurance	71,500	64,838
Lease	12,000	12,000
Legal	6,144	3,054
Miscellaneous	38,252	29,588
Office	25,960	23,114
Payroll taxes and insurance	500,407	497,733
Professional services	17,841	58,916
Repairs and maintenance	249,758	211,129
Salaries and wages	1,450,393	1,402,301
Telephone	6,815	7,202
Travel and training	28,482	8,676
Utilities	335,851	374,806
	5,273,859	5,073,212
Operating income (loss)	(59,957)	43,331
NONOPERATING REVENUES (EXPENSES)		
Interest income	356,700	357,407
Amortization of bond issuance costs	(27,098)	-
Interest expense	(399,353)	-
	(69,751)	357,407
CAPITAL CONTRIBUTIONS REVENUES		
Restricted for capital improvements	7,973,867	937,563
CHANGE IN NET ASSETS	7,844,159	1,338,301
Net assets at beginning of year	59,872,670	58,534,369
NET ASSETS AT END OF YEAR	$ 67,716,829	$ 59,872,670

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

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating cash receipts from customers	$ 5,251,111	$ 5,173,558
Cash payments to suppliers for goods and services	(1,472,452)	(1,456,709)
Cash payments to employees for services	(1,424,946)	(1,445,208)
Net cash provided by operating activities	2,353,713	2,271,641
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net purchases of property, plant and equipment	(18,073,137)	(5,960,800)
Master plan payment	-	(16,642)
Airport Improvement Program receipts (payments)	5,915,850	(17,821)
Bulletproof Vest Partnership Program receipts	2,100	-
Passenger facility charge receipts	1,307,979	839,432
Customer facility charge receipts	224,565	-
Bond proceeds received	16,000,000	-
Payment of bond issuance costs	(341,745)	-
Bond interest payment	(399,353)	-
Net cash provided (used) by capital and related financing activities	4,636,259	(5,155,831)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	3,633,362	-
Purchase of investments	(1,144,120)	-
Interest received	198,526	33,069
Net cash provided by investing activities	2,687,768	33,069
NET INCREASE (DECREASE) IN CASH	9,677,740	(2,851,121)
Cash and cash equivalents at beginning of year	2,799,552	5,650,673
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,477,292	$ 2,799,552
STATEMENT OF NET ASSETS CASH		
Unrestricted	$ 6,057,446	$ 1,409,102
Restricted	6,419,846	1,390,450
	$ 12,477,292	$ 2,799,552

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

GALLATIN AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended June 30	
	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ (59,957)	$ 43,331
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,349,507	2,219,575
Amortization	16,642	16,642
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	32,181	51,977
Prepaid expenses	(14,720)	(29,875)
Increase (decrease) in:		
Accounts payable	(415)	7,860
Compensated absences payable	25,447	(42,907)
Deferred revenue	5,028	5,038
Net cash provided by operating activities	$ 2,353,713	$ 2,271,641

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A) Reporting Entity

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Basis of Accounting/Measurement Focus

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

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

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

  Expendable - Net assets whose use by the Airport Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Airport Authority 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 2010 and 2009.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Inventories

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

F) Fixed Assets, Depreciation and Amortization

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

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

G) Compensated Absences

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

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

H) Use of Estimates

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

I) Budgets

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) Bond Issuance Cost

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

2. CASH AND INVESTMENTS

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

The following are deposit and investment risk disclosures:

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

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

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority's investment policy requires credit risk to be limited by diversification by financial institution. The Authority'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 Authority 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 Authority'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, 2010 and 2009, was as follows:

	2010		2009	
	Cost	Market Value	Cost	Market Value
Cash and Cash Equivalents				
Operating Account	$ (183,825)	$ (183,825)	$ (182,084)	$ (182,084)
Capital Account	6,241,271	6,241,271	1,591,186	1,591,186
	6,057,446	6,057,446	1,409,102	1,409,102
Other Assets - Restricted				
Operating Reserve Account	810,312	810,312	-	-
Construction Account	5,067,707	5,067,707	1,357,335	1,357,335
Renewal and Replacement Reserve Account	250,000	250,000	-	-
Debt Service Account	54,457	54,457	-	-
PFC Reserve Account	237,370	237,370	33,115	33,115
	6,419,846	6,419,846	1,390,450	1,390,450
	$ 12,477,292	$ 12,477,292	$ 2,799,552	$ 2,799,552
Investments				
Operating InvestmentAccount	$ 7,420,603	$ 7,421,670	$ 10,500,000	$ 10,896,859
Debt Service Reserve Account	1,144,120	1,144,120	-	-
	$ 8,564,723	$ 8,565,790	$ 10,500,000	$ 10,896,859

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 $22,561 and $22,487 in 2010 and 2009, 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 Authority 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, 2010 and 2009 consist entirely of certificates of deposit with First Interstate Bank whose term to maturity at date of acquisition exceeds three months. The Bank uses the certificate of deposit account registry service (CDARS) to purchases certificates of deposit for the Airport, which the Bank holds as a custodian for the Airport. The certificates of deposits are fully insured by the FDIC. All certificates of deposit mature on November 4, 2010.

3. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

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

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

Funding Policy

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

	Employer	Employee	State of Montana	Total
PERS - 2010	7.070%	6.9%	.1%	14.070%
PERS - 2009	6.935%	6.9%	.1%	13.935%
PERS - 2008	6.935%	6.9%	.1%	13.935%

The amounts contributed to the plan during the years ended June 30, 2010 and 2009, 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
2010	$ 1,479,410	$ 104,594	$ 102,079
2009	$ 1,433,600	$ 99,420	$ 98,918
2008	$ 1,121,530	$ 77,778	$ 77,385

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, 2010 and 2009 included PFC 05-03-C-00-BZN and PFC 09-04-C-00-BZN. The PFC project No. 05-03-C-00-BZN effective April 1, 2006 authorized a charge of $3 per enplaned passenger and total project expenditures of $2,891,180. The total expenditures approved for the project was amended by the FAA January 13, 2009 to $2,115,410. This project was completed February 28, 2009. 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 $2,200,000. This project expires January 1, 2011.

	2010	2009
Summary of PFC transactions:		
Sources:		
PFC collections cumulative to June 30	$ 11,090,077	$ 9,782,098
Interest earned	253,835	250,759
Total sources	11,343,912	10,032,857
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	399,353	-
	3,819,401	3,420,048
Cost of improvements	7,287,141	6,579,694
Total uses	11,106,542	9,999,742
PFC Reserve Account at June 30	$ 237,370	$ 33,115

4. PASSENGER FACILITY CHARGES (Continued)

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

5. CONSTRUCTION IN PROGRESS

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

6. FIXED ASSETS

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

	6/30/08	Additions	Disposals	6/30/09
Land	$ 9,923,044	$ 28,812	$ -	$ 9,951,856
Runways & improvements	25,758,822	4,319,885	-	30,078,707
Buildings & equipment	24,467,870	77,256	-	24,545,126
Construction in progress	5,632,369	1,836,183	-	7,468,552
	65,782,105	6,262,136	-	72,044,241
Less accumulated depreciation	(24,374,372)	(2,219,575)	-	(26,593,947)
Net fixed assets	$ 41,407,733	$ 4,042,561	$ -	$ 45,450,294

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:

	2010	2009
OTHER ASSETS		
Intangible asset, net	$ 291,235	$ 307,877
Bond issue cost, net	314,647	-
	605,882	307,877
PROPERTY, PLANT AND EQUIPMENT		
Land	9,951,856	9,951,856
Runways and improvements	32,342,890	30,078,707
Buildings and equipment	28,079,194	24,545,126
Construction in progress	19,442,102	7,468,552
Accumulated depreciation	(28,943,454)	(26,593,947)
	60,872,588	45,450,294
LESS: LONG-TERM LIABILITIES		
Bonds payable for amount invested in capital assets	9,616,437	-
Invested in Capital Assets, Net of Related Debt	$ 51,862,033	$ 45,758,171

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

	2010	2009
CURRENT ASSETS		
Investments	$ 1,144,120	$ -
Receivables		
Passenger facility charges	193,606	219,761
	1,337,726	219,761
OTHER ASSETS		
Restricted cash and cash equivalents	6,419,846	1,390,450
LESS: CURRENT LIABILITIES		
Accrued construction contracts payable	-	301,336
LESS: LONG-TERM LIABILITIES		
Bonds payable for future investment in capital assets	6,383,563	-
Restricted for Capital Projects and Debt Service	$ 1,374,009	$ 1,308,875

7. NET ASSETS (Continued)

C. Unrestricted Assets consists of the following:

	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	$ 6,057,446	$ 1,409,102
Investments	7,421,670	10,896,859
Receivables		
Customers, net	633,884	666,065
Grants	549,529	-
Prepaid expenses	70,013	55,293
	14,732,542	13,027,319
LESS: CURRENT LIABILITIES		
Payable from unrestricted assets		
Accounts payable	7,445	7,860
Compensated absences	194,410	168,963
Deferred revenue	49,900	44,872
Total Liabilities Payable from Unrestricted Assets	251,755	221,695
Unrestricted Net Assets	$ 14,480,787	$ 12,805,624

8. LEASE REVENUE

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

8. LEASE REVENUE (Continued)

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

2011	$	1,721,083
2012	$	1,520,790
2013	$	1,392,769
2014	$	592,775
2015	$	115,194

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, 2010. The Airport also has several leases that require the lessee to remit a percentage of its revenue as the rental charge. Rental income under leases of this type include the minimum rental amounts in the above schedule.

9. CONTRIBUTED CAPITAL

Contributed capital consists of the following:

	2010	2009
Passenger Facility Charges	$ 1,281,823	$ 955,384
Customer Facility Charges	224,565	-
Grants	6,467,479	(17,821)
	$ 7,973,867	$ 937,563

10. RISK MANAGEMENT

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

11. RELATED PARTIES

Richard Roehm (Board Member) entered into a 10-year lease with the Airport on October 1, 1999. An option for a 10-year renewal was taken. Lease revenue for 2010 and 2009 was $538 per year.

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 2010 and 2009 was $2,046 per year.

John McKenna (Board Member) and two unrelated parties enter into a 10-year lease with the Airport beginning May 1, 2001. Lease revenue for 2010 and 2009 was $852 and $823, respectively.

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 2010 and 2009 was $1,874 per year.

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

12. COMMITMENTS

The Authority has entered into an interlocal agreement with the City of Belgrade to participate in an operational analysis for an interstate interchange. The Authority has committed $300,000 to the analysis, if the project is stopped, the Authority will get two thirds back. If the project goes forward, the $300,000 will count towards the Authority's share. The Authority donated approximately $11,998 and $14,712 towards the project in 2010 and 2009, respectively.

The 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 Gallatin Field Airport. The Airport has committed funding not-to-exceed $3,000,000 excluding Right-of-Way valuations estimated at $934,800 and $300,000 previously committed to operational analysis.

13. 2009 REVENUE BONDS

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

13. 2009 REVENUE BONDS (Continued)

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

Fiscal Year	Principal Amount	Interest Rate	Interest Amount	Total Principal and Interest
2011	$ -	3.000	$ 653,486	$ 653,486
2012	-	3.000	653,486	653,486
2013	490,000	3.000	653,486	1,143,486
2014	505,000	3.000	638,786	1,143,786
2015	520,000	3.000	623,636	1,143,636
2016	535,000	3.000	608,036	1,143,036
2017	550,000	3.200	591,986	1,141,986
2018	565,000	3.400	574,386	1,139,386
2019	585,000	3.500	555,176	1,140,176
2020	605,000	3.625	534,702	1,139,702
2021	630,000	3.750	512,770	1,142,770
2022	650,000	3.850	489,145	1,139,145
2023	680,000	3.950	464,120	1,144,120
2024	705,000	4.000	437,260	1,142,260
2029	4,000,000	4.375	1,710,614	5,710,614
2034	4,980,000	4.700	723,800	5,703,800
Total	$ 16,000,000		$ 10,424,875	$ 26,424,875

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

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

14. RESTRICTED BOND CASH AND INVESTMENT ACCOUNTS

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

	Fair Value 2010	Fair Value 2009
Debt Service Account	$ 54,457	-
Debt Service Reserve Fund	1,144,120	-
	$ 1,198,577	$ -

15. RECLASSIFICATIONS

Certain amounts in the fiscal year 2009 financial statements have been reclassifed to conform to the fiscal year 2010 presentation.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 4, 2010, the date on which the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

C. SUPPLEMENTAL INFORMATION

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF IN-FORCE INSURANCE
June 30, 2010

Insurer	Coverage	Amount	Expires	Annual Premium
Continental Western Group	Commercial Buildings	$ 23,643,381	8/10/10	$ 29,223
	Commercial Auto	$ 1,000,000		$ 12,278
	Inland Marine	$ 1,910,212		$ 4,749
	Boilers and Machinery (included in property)			
Cincinnati Insurance	Public Employees Crime Policy	$ 50,000	8/10/10	$ 400
Cincinnati Insurance	Directors & Officers Liability and Employment Practices Liability	$ 1,000,000	8/10/10	$ 4,879
ACE Property & Casualty	Airport Liability	$ 30,000,000	8/10/10	$ 15,500
Indian Harbor Insurance	Law Enforcement Liability	$ 2,000,000	8/10/10	$ 5,897

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, 2010, and have issued our report thereon dated November 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Compliance and Other Matters

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

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

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

Bozeman, Montana
November 4, 2010

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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, 2010. 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, 2010.

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.

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

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

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

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

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

Bozeman, Montana
November 4, 2010

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS,
AS REQUIRED BY OMB CIRCULAR A-133
For the Year Ended June 30, 2010

Financial Statements

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

Federal Awards

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

Identification of major programs:

20.106 Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B	$300,000
Auditee qualified as low-risk auditee?	no
Financial Statement Findings	none
Federal Award Findings and Questioned Costs	none

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

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

FEDERAL SOURCE *PASS-THOUGH SOURCE* Program Name	CFDA NUMBER	AMOUNT AWARDED	RECEIVABLE BALANCE 6-30-09	REVENUES REQUESTED	REVENUES RECEIVED	RECEIVABLE BALANCE 6-30-10	FEDERAL EXPENDITURES 6-30-10	TOTAL PROJECT TO - DATE	FEDERAL ASSISTANCE TO - DATE	MATCHING TO - DATE
U.S. DEPT. OF TRANSPORTATION *Federal Aviation Administration - Airport Improvement Program*										
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-33	20.106	2,157,830	-	1,502,246	1,350,847	151,399	1,502,246	1,581,312	1,502,246	79,066
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-34	20.106	5,161,194	-	3,664,303	3,266,173	398,130	3,664,303	3,857,161	3,664,303	192,858
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-35	20.106	1,298,830	-	1,298,830	1,298,830	-	1,298,830	1,455,126	1,298,830	156,296
U.S. DEPARTMENT OF JUSTICE										
Bulletproof Vest Partnership Program	16.607	2,100	-	2,100	2,100	-	2,100	5,100	2,100	3,000
TOTAL FEDERAL AWARDS		$ 8,619,954	$ -	$ 6,467,479	$ 5,917,950	$ 549,529	$ 6,467,479	$ 6,898,699	$ 6,467,479	$ 431,220

Notes to Schedule of Federal Awards:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

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

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

GALLATIN AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

FEDERAL SOURCE *PASS-THOUGH SOURCE* Program Name	CFDA NUMBER	AMOUNT AWARDED	RECEIVABLE BALANCE 6-30-08	REVENUES REQUESTED	REVENUES RECEIVED	RECEIVABLE BALANCE 6-30-09	FEDERAL EXPENDITURES 6-30-09	TOTAL PROJECT TO - DATE	FEDERAL ASSISTANCE TO - DATE	MATCHING TO - DATE
MAJOR PROGRAM:										
U.S. DEPT. OF TRANSPORTATION *Federal Aviation Administration -* *Airport Improvement Program*										
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-30	20.106	2,227,750	-	(379,638)	(379,638)	-	(349,402)	1,995,694	1,848,112	147,582
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-31	20.106	552,000	-	12,415	12,415	-	12,937	594,122	564,415	29,707
Contract No. DOT-FA04NM-2030 Project No. 3-30-0010-32	20.106	3,722,674	-	349,402	349,402	-	367,791	3,926,746	3,730,409	196,337
TOTAL FEDERAL AWARDS		$ 6,502,424	$ -	$ (17,821)	$ (17,821)	$ -	$ 31,326	$ 6,516,562	$ 6,142,936	$ 373,626

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, 2009 has been presented as supplementary information. The total expenditures of federal awards for the fiscal year are less than $500,000; accordingly, they have not been subjected to the compliance procedures 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, 2010. 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, 2010.

Internal Control Over Compliance

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

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

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

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

Bozeman, MT
November 4, 2010