CITY OF BURLINGTON, VERMONT
AIRPORT ENTERPRISE FUND

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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MH&Co
MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Burlington International Airport
City of Burlington, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the Airport Enterprise Fund of the City of Burlington, Vermont (the Fund) as of and for the years ended June 30, 2013 and 2012, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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As discussed in Note 1, the financial statements present only the Airport Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City of Burlington, Vermont as of June 30, 2013 and 2012, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Airport Enterprise Fund of the City of Burlington, Vermont as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
February 13, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

Within this section of the Burlington International Airport annual financial report, management provides a narrative discussion and analysis of the financial activities for the year ended June 30, 2013. The Fund’s performance is discussed and analyzed within the context of the accompanying financial statements and note disclosures following this section.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements include (1) the statements of net position, (2) the statements of revenues, expenses and changes in net position, (3) the statements of cash flows, and (4) notes to financial statements.

The Statement of Net Position is designed to indicate our financial position as of a specific point in time. At June 30, 2013, it shows our net position of $115,023,301 a change of $2,456,646 in comparison to the prior year.

The Statement of Revenues, Expenses and Changes in Net Position summarize our operating results and reveals how much, if any, of a profit was earned for the year. As discussed in more detail below, our change in net position for June 30, 2013 was $2,456,646. There are two significant components of this increase. The first is the Net Loss before Capital Contributions of ($2,293,751) which is primarily due to the Airport recognizing depreciation expense (not funded with rates and charges assessed) in excess of the principal debt service payments (funded with rates and charges). The second component is the recognition of the Capital Contributions received from the FAA for capital improvement of $4,750,397. Collectively, these two components account for the net increase in Net Position.

The Statement of Cash Flows provides information about cash receipts and cash payments during the accounting period. It also provides information about investing and financing activities for the same period. A review of our Statement of Cash Flows indicates that cash receipts from operating activities adequately covered our operating expenses in fiscal year 2013.

Financial Highlights:

The following is a summary of condensed financial data for the current and prior fiscal years.

Summary of Net Position (000's)

	2013	2012
Current and other assets	$ 19,927	$ 20,771
Capital assets	146,352	145,585
Total assets	166,279	166,356
Current liabilities	6,983	19,726
Noncurrent liabilities	44,273	34,063
Total liabilities	51,256	53,789
Net position:		
Net investment in capital assets	100,343	96,835
Restricted	13,050	13,397
Unrestricted	1,630	2,335
Total net position	115,023	112,567
Total liabilities and net position	$ 166,279	$ 166,356

Summary of Changes in Net Position (000's)

	2013	2012
Operating revenues	$ 15,630	$ 14,784
Operating expenses	(17,254)	(16,961)
Operating (Loss)	(1,624)	(2,177)
Nonoperating Revenues (Expenses)		
Other revenue	2,671	3,022
Other expense	(3,341)	(3,493)
Total Nonoperating Revenues (Expenses)	(670)	(471)
Net income (loss) before capital contributions	(2,294)	(2,648)
Capital contributions - grant	4,750	5,757
Total capital contributions	4,750	5,757
Change in Net Position	2,456	3,109
Beginning Net Position	112,567	109,458
Ending Net Position	$ 115,023	$ 112,567

Operating revenues changed by $845,967 in 2013, an increase of 5.72%. Reasons for this change can be found in the Significant Balances & Transactions section of this MD&A.

Operating expenses changed by $293,117 in 2013, an increase of 1.73%. This change is directly attributed to the increase in non-personnel costs.

Capital Assets:

Capital Assets - Net capital assets changed by $766,812 in 2013. This change is primarily the difference between current year additions of $6,801,203 and annual depreciation expense of $6,026,159, and a loss on capital assets of $8,231.

Additional information on capital assets can be found in the Footnotes to the Financial Statements.

Long-term Debt:

Long-term Debt - At the end of the current fiscal year, total bonded debt outstanding, including unamortized premiums, was $44,413,297 all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

Significant Balances and Transactions:

The following is a summary and discussion of certain of the Airport's recent financial and operating results. The following discussion should be read in conjunction with the audited financial statements attached hereto.

Historical Airport Operating and Financial Performance

The City accounts for the financial operations of the Airport using an Enterprise Fund approach. On an annual basis, the Airport has historically generated revenues sufficient to pay its operating expenses, to meet its Bond Debt Service and to fund a portion of its capital expenses. In fiscal years 2011, 2012 and 2012, the Airport satisfied its rate covenant under bond resolution and also paid bond debt service and capital lease obligations timely and in full. See "Recent Financial Performance" herein.

Revenues

The Airport derives its revenues from a variety of sources, including terminal revenues, parking, landing fees, car rentals, concessions and rentals of buildings and grounds. It has also applied for and been granted permission by the FAA to charge and collect PFCs for qualified capital expenditures.

The following table shows each of these revenue items since FY 2008.

Revenues Since FY 2008 (thousands)							
(thousands)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013 (Unaudited)**	**2013 (Budget)**
Operating Revenues							
Terminal Revenue	$1,858	$1,976	$2,038	$2,038	$2,354*	$2,842	$2,901*
Landing Fees	1,409	1,430	1,289	1,395	1,484	1,305	1,450
Parking	4,676	5,098	5,281	6,603	7,050	7,028	7,424
Car Rental	1,652	1,680	1,556	1,627	1,736	1,878	1,742
Concessions	679	647	591	561	623	694	608
Building and Ground Rentals	853	897	937	1,012	1,000	1507	1,061
Other	601	527	507	900	832	701	833
Total Operating Revenue	$11,728	$12,255	$12,199	$14,136	$15,079	$15,955	$16,019
Year over Year % Change		4.49%	-0.46%	15.88%	6.67%	5.80%	8.07%

	2008	**2009**	**2010**	**2011**	**2012**	**2013 (Unaudited)**	**2013 (Budget)**
PFC Revenues	$3,087	$2,990	$2,438	$2,593	$2,694	$2,285	$2,817

* Terminal Revenues include implementation of an apron fee.

***Terminal Revenues and Landing Fees*.**

Terminal revenues and landing fees are paid by the airlines that operate at the Airport. Such fees are calculated pursuant to an Airport Use Agreement which establishes five Airport cost centers in order to fairly allocate Airport operating costs among the airlines.

In fiscal years 2013 and 2012, airline rates and charges were not increased. Prior to fiscal year 2012, the Airport's practice had been to delay implementation of these increased charges until late in the fiscal year when actual revenues and expenses were more clearly identified for the year. That practice ceased in fiscal year 2012 in order to provide stability to airport revenues and prevent confusion with retroactive changes. In fiscal year 2013 the Airport budgeted for airline terminal rents to be increased through allocating additional space within the terminal being used by air carriers. These revenues were budgeted to increase the terminal rents by approximately $320,000. The Airport's fiscal year 2013 projected revenues related to terminal rents reflect increases due to additional space allocation to the airlines, increased rates to car rentals as well as additional rental of terminal space to non-airline sources. The Airport's fiscal year 2013 airline terminal and landing fee rates remained level at the 2012 rates, with a planned rate increase in fiscal year 2014.

Terminal and landing fee revenue represented approximately 18% of the Airport's total revenue in fiscal year 2013. During fiscal year 2013, terminal and landing fee revenues increased approximately $309,000 from fiscal year 2012, or 8.06%, to approximately $4,147,000. This increase was primarily a result of higher occupancy loads.

Parking

The City has made substantial investments over the past several years to expand parking capacity and to connect the north garage to the Airport with an enclosed second story walkway. These improvements have allowed the City to increase revenues from this Airport income stream and reduce labor expenses from a former shuttle service from a remote parking facility. The City reports “parking” revenues as revenues derived from the parking garage, remote parking, as well as CFC collections.

Parking fees have been increased periodically in order to increase revenues without jeopardizing passenger usage. Current parking fees in the garage are $12 per day. The Airport also imposes a $4 per day CFC charge on each car rental transaction which resulted in $1,154,600 in revenue in fiscal year 2013. A portion of these CFC charges are utilized to support the Bond costs for the parking garage expansion.

Parking revenues represented approximately 30% of the Airport’s total revenue in fiscal year 2013. During fiscal year 2013, parking revenues remained consistent with fiscal year 2012. The consistency in parking revenues in fiscal year 2013 from fiscal year 2012 resulted from modest increased activity in the parking facilities as well as increased CFC collections.

Car Rental Facilities

Car rental facilities occupy office and counter space within the terminal building adjacent to the luggage receiving area. In addition there are designated parking spaces for each car rental company on the second floor of the garage facilities. Over the past six years, collectively, the car rentals have had a minimum annual revenue guarantee (MAG) of approximately $1.435 million per year, but they have generated more revenue than the guaranteed minimum ($236,000 in fiscal year 2013). The Airport recently finalized car rental concession agreements with National/Alamo, Avis/Budget, Hertz, Enterprise and DTG Operations, Inc. doing business as Dollar which are in effect through June 30, 2016. The DTG Operations agreement is a new operator at the Airport. Under the new agreement, that MAG has increased to $1,642 million for fiscal year 2013 and increases by approximately $27,000 per year for the next two years.

Terminal Concessions

Terminal concessions, such as food vendors, Hudson News and other similar establishments provide a variety of services for passengers, visitors and employees at the Airport. The Airport issued a Request For Proposal (RFP) in the spring of 2012 to solicit for a replacement food service provider. In June 2012 the Airport awarded a contract for a new vendor to operate the pre and post security food service kiosks. These facilities opened in early 2013. The contract for replacing the full service pre-screening restaurant, which closed in May 2013, is being addressed under a separate RFP. Food concession revenues have exceeded expectations for the second half of fiscal year 2013, with additional revenue expected for fiscal year 2014.

Terminal concessions revenues represented approximately 3.01% of the Airport’s total revenue in fiscal year 2013. During fiscal year 2013, terminal concessions revenues increased $71,000 from fiscal year 2012, or 11.3%, to approximately $694,000. The increase in concession revenues in fiscal year 2013 resulted from new airport concessions in the north and south concourse which opened in early 2013.

Buildings, Grounds and Airfield Concession Revenues

Buildings, grounds and airfield concession revenues include certain parcels within the existing Airport footprint that have been rented to firms such as Federal Express, Pratt & Whitney, and Heritage, as well as hangar and facility rentals from cooperatives using the Airport for general aviation. The fiscal year 2013 budget increase reflects agreements with new tenants and updates to terms of existing agreements.

Buildings, grounds and airfield concession revenues represented approximately 6.5% of the Airport's total revenue in fiscal year 2013. During fiscal year 2013, these revenues increased $506,700 from fiscal year 2012, or 50.7%, to approximately $1,507,000. The increase in buildings, grounds and airfield concession revenues in fiscal year 2013 resulted from the execution of an agreement with off premises lessees. In addition, the implementation and use of new accounting software by the City of Burlington more accurately distributes and accounts for the many airport revenue sources providing an excellent resource to track revenue performance.

Other Revenues

Other revenues include a federal operating grant, interest income, administrative fees and tenant reimbursements. The tenant reimbursement component relates to property tax and casualty insurance assessments. Changes to this miscellaneous income are primarily affected by fees assessed by third party agencies.

Passenger Facility Charges

Passenger facility charges are revenues derived from a federal program allowing airports to charge a per passenger fee of up to $4.50 to provide funds to airports for certain qualifying capital expenses. The Airport has applied for and received PFC authorization for many of the capital improvements it has initiated since 1997. Currently, the Airport receives approximately $2.6 million annually in PFC revenues, of which approximately $1.9 million are used to pay that portion of Bond Debt Service attributable to authorized PFC projects.

As of June 30, 2013, the Airport had approximately $1.9 million on deposit in the segregated PFC account, which is adequate to pay for the PFC projects being financed with Airport Revenue Bonds. The Airport will continue to apply for authority to impose and collect PFCs for future projects under current FAA regulations.

Expenses

The Airport's expenses include typical expense categories covering airport operations. One expense that is not paid for by the Airport is the Aircraft Rescue and Fire Fighting (ARFF) services which are provided by the Vermont Air National Guard as part of its lease with the Airport, saving the Airport approximately $2 million annually.

The following table shows the expenditures by category since fiscal year 2009.

Airport Expenditures Since FY 2009 (thousands)

(thousands) (Fiscal Year Ended June 30)	2009	2010	2011	2012	2013 (Unaudited)	2014 (Budgeted)
Operating Expenses (Non-GAAP)						
Salaries	$1,753	$2,037	$2,466	$2,395	$2,238	$2,381
Employee Benefits	743	853	866	955	1280	1,030
Professional Contracts	273	214	203	639	780	907
Service Contracts	2,166	2,579	2,338	2,011	1,606	1,522
Insurance	191	211	204	185	198	232
Utilities/Phone	1,189	1,100	1,135	1,146	1146	1,230
Travel & Training, Fees for Services	-	-	-	-	98	514
Advertising, PR, Travel & Subscriptions	450	471	363	311	-	-
Computer	54	80	63	89	-	-
Supplies, Postage & Computers	-	-	-	-	427	716
Repairs & Maintenance	-	-	-	-	441	534
Materials, Supplies & Permits	641	666	688	652	-	-
City Interdepartmental*	1,048	1,285	1,494	1,527	431	487
BPD/Airport Security	-	-	-	-	1,109	1,142
Property Taxes and Bad Debt & Regulatory, Bank Fees	1,806	960	1,060	1,348	1,634	1,490
Total Operating Expenses	**$10,314**	**$10,456**	**$10,880**	**$11,258**	**$11,388**	**$12,185**

Salaries and benefits decreased by $408,000 from 2012 to 2013 primarily resulting from reductions in staff.

Recent Financial Performance

Airport Net Revenue was determined to have been above the Rate Covenant requirement of 1.25% Debt Service in fiscal years 2011, 2012 and 2013, and Debt Service, Operation and Maintenance expenses and other obligations of the Airport were fully and timely paid in each of those years. In fiscal year 2012, the City fully funded the Debt Service Reserve Fund in cash, on behalf of the Airport and from Airport revenues. Upon issuance of the Series 2012 Bonds, the Debt Service Reserve Fund was funded, in cash, in an amount equal to the Debt Service Reserve Fund Requirement, taking into account the issuance of the Series 2012 Bonds and the refunding of the Series 1997 Bonds and the Series 2000 Bonds

In fiscal year 2013, the Airport made payments of debt service on the Bonds from its Revenues and made deposits to the Debt Service Fund in the amounts as required under the Resolution. As of June 30, 2013, there was $2,845,788 deposited in the Bond Debt Service account and $215,000 in the Reserves account.

The financial health and performance of the Airport is taken very seriously by the City, the Airport Commission and Airport management. Significant attention has been devoted to improving the Airport's financial operations in the past several years, including looking at ways to increase non-airline dependent revenues and ensuring specific focus has been paid on maintaining debt service coverage in accordance with Bond Covenants. In addition, the City has made significant progress showing the credit rating agencies that an upgrade to the credit rating for the Airport and the City is appropriate and justified. It is anticipated that this will be successful in fiscal year 2014.

Going forward, as was done in fiscal years 2012 and 2013, the Airport will employ some amount of its PFC revenues in its coverage calculations, consistent with current FAA regulations as to the use of these revenues.

In fiscal year 2013, the City took steps to insure that Airport funds are held in a segregated account and used for Airport purposes, including reimbursing the City for shared services and for payroll, payables and capital expenditure draws covered by the City on an interim basis. The use of funds derived from drawdowns under the GAN will further the financial separation of the Airport from the City. PFC Revenues will continue to be deposited to a segregated PFC fund and used exclusively for projects approved for their use by the FAA, including the payment of debt service.

The City and the Airport are continuing to carefully reviewing any opportunity to expand revenues and decrease expenses. Airlines are being requested to increase flights and destinations. In June 2013 Delta added a direct flight to Atlanta, Georgia as a result of these continued efforts. All expiring leases are being viewed as opportunities to improve the facility and increase rental revenue. In addition, the Airport is requesting reimbursement (through the PFC program) for certain local matching amounts that the City contributed to the FAA approved projects; the local AIP share equals approximately $340,000 per year.

It is the goal of these initiatives to (i) provide additional transparency in the handling of Airport funds; (ii) assure timely and proactive responses to any unusual or unexpected financial events with respect to the Airport and (iii) achieve a Net Revenue target well in excess of the Resolution mandate of 125% of Debt Service.

The following table shows the Rate Covenant calculation in each of fiscal years 2008 to 2013, recalculated in accordance with the recommendations of the Airport Consultant's report as to use of PFCs in the calculation of coverage.

Rate Covenant Calculation From FY 2008 to 2013 (thousands)						
	2008	2009	2010	2011	2012 (Unaudited)	2013 (Unaudited)
Revenues	$12,021	$12,706	$12,431	$14,203	$15,080	$15,890
O & M Expenses (as defined)	9,029	10,456	9,586	10,659	11,259	11,731
Net Revenues (as defined)	$2,992	$2,250	$2,845	$3,544	$3,821	$4,159
PFC Revenues Available for DS	1,965	1,965	1,939	1,938	1,939	1,938
Funds Available for DS	4,957	4,215	4,784	5,482	5,760	6,097
25% PFC Revenue for DS coverage	491	491	485	484	485	485
Adjusted Funds Available for DS	$5,448	$4,706	$5,269	$5,966	$6,245	$6,582
Debt Service	$4,275	$4,273	$4,269	$4,266	$4,195	$4,268
Debt Service Coverage	**1.16**	**0.99**	**1.12**	**1.29**	**1.37**	**1.43**
Adjusted Debt Service Coverage (x)	**1.27***	**1.10***	**1.23***	**1.40**	**1.49**	**1.54**

*This calculation is made by Ricondo through 2012, and by City of Burlington in 2013, and applies 25% of PFC revenue to debt service coverage. The Auditors' Report does not apply those revenues, and notes in each FY2009-2010 financial statements that the City has not complied with this covenant.

Bond Rating Changes

The providers of the Credit Facilities that were credited to the Debt Service Reserve Fund upon issuance of the Series 1997 Bonds and the Series 2003 Bonds, respectively, are no longer rated in the highest rating category by either S&P, Moody's or Fitch. Accordingly, in Fiscal Year 2012, the City started to set aside funds, from Airport revenues, in order to fund the Debt Service Reserve Fund in cash. Upon issuance of the Series 2012 Bonds, the Debt Service Reserve Fund will be funded, in cash, an amount equal to the Debt Service Reserve Fund Requirement, taking into account the issuance of the Series 2012 Bonds and the refunding of the Series 1997 Bonds and the Series 2000 Bonds.

Amounts Due to the City of Burlington

As a result of the use of setting aside of monies to fund the Debt Service Reserve Fund, at the end of the Fiscal Year 2012, the Airport did not have sufficient funds in the General Obligation Bond Fund to repay the City's general fund upon the maturity of the City's revenue anticipation note. Such revenue anticipation note was paid in full by the City from other funds and the Airport expects to reimburse the City for such payments from the General Obligation Bond Fund to the extent funds are available therein.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the City of Burlington Airport Enterprise Fund’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of Clerk/Treasurer
City of Burlington, City Hall
149 Church Street
Burlington, VT 05401

CITY OF BURLINGTON, VERMONT

AIRPORT ENTERPRISE FUND
STATEMENTS OF NET POSITION

JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Current:		
Cash and cash equivalents	$ 166,179	$ 18,783
Accounts receivable, net of allowance for doubtful accounts	1,626,039	847,469
Restricted PFC receivable	34,653	373,069
Unbilled receivables	524,894	337,726
Intergovernmental receivables	2,155,918	3,347,650
Due from other funds	294,393	52,908
Inventory	226,550	278,611
Due from Burlington Community Development Corp.	63,989	62,100
Deferred charges	846,583	1,034,334
Other loans receivable, including accrued interest	34	20,009
Total current assets	5,939,232	6,372,659
Noncurrent:		
Restricted investment - Passenger Facility Charges	1,967,134	2,497,752
Restricted investment for Prepaid Cash Reserve (PFC)	485,234	484,632
Restricted investment for Debt Service Reserve	4,350,939	4,385,464
Restricted investment for Renewal and Replacement Fund	-	215,000
Restricted investment for Bond Debt Service Fund	2,845,788	3,453,479
Restricted investment for O&M Reserve Fund	3,101,006	1,472,324
Restricted investment for Bond Anticipation Note Reserve	-	387,715
Restricted investment for Grant Anticipation Note Reserve	300,000	500,000
Due from Burlington Community Development Corp.	937,967	1,001,956
Land and construction in progress	45,111,955	40,432,845
Capital assets, net of accumulated depreciation	101,240,249	105,152,547
Total noncurrent assets	160,340,272	159,983,714
TOTAL ASSETS	166,279,504	166,356,373
LIABILITIES		
Current:		
Accounts payable	2,113,597	983,980
Accrued liabilities	44,774	43,584
Due to other funds	-	1,112,299
Accrued interest	1,014,739	1,647,334
Deferred revenue	749,610	-
Bond anticipation notes payable	-	12,000,000
Grant anticipation notes payable	1,051,892	819,000
Current portion of revenue bonds payable	1,489,666	2,599,415
Current portion of capital leases payable	518,542	520,825
Total current liabilities	6,982,820	19,726,437
Noncurrent:		
Revenue bonds payable, net of current portion	42,923,631	32,220,617
Capital leases payable	1,077,119	1,579,253
Accrued employee compensated absences	190,681	201,423
Other post-employment benefits	81,952	61,988
Total noncurrent liabilities	44,273,383	34,063,281
TOTAL LIABILITIES	51,256,203	53,789,718
NET POSITION		
Net investment in capital assets	100,343,246	96,835,315
Restricted	13,050,101	13,396,366
Unrestricted	1,629,954	2,334,974
TOTAL NET POSITION	115,023,301	112,566,655
TOTAL LIABILITIES AND NET POSITION	$ 166,279,504	$ 166,356,373

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

CITY OF BURLINGTON, VERMONT

AIRPORT ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Revenues:		
Charges for services	$ 15,504,157	$ 14,577,365
Intergovernmental	126,090	206,915
Total Operating Revenues	15,630,247	14,784,280
Operating Expenses:		
Personnel costs	3,694,065	4,101,926
Non-personnel costs	7,533,709	6,686,409
Depreciation	6,026,159	6,172,481
Total Operating Expenses	17,253,933	16,960,816
Operating Loss	(1,623,686)	(2,176,536)
Other Income (Expenses):		
Interest income	61,195	69,516
Interest expense and fiscal charges	(2,750,931)	(2,834,812)
Other income	40,603	1,704
Amortization of bond issue costs	(187,751)	(187,751)
Passenger facility charges	2,284,829	2,693,995
Building rent	284,209	255,722
Building rental expenses	(402,219)	(470,330)
Total Other Income (Expenses)	(670,065)	(471,956)
Net (Loss) Before Transfers and Capital Contributions	(2,293,751)	(2,648,492)
Capital contributions - AIP Grants	4,750,397	5,757,334
Change in Net Position	2,456,646	3,108,842
Net Position at Beginning of Year	112,566,655	109,457,813
Net Position at End of Year	$ 115,023,301	$ 112,566,655

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

CITY OF BURLINGTON, VERMONT

AIRPORT ENTERPRISE FUND
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities:		
Receipts from customers and users	$ 15,675,277	$ 15,144,590
Receipts of operating grants	126,090	206,915
Other building rents	284,209	255,722
Payments to suppliers and interfund services	(6,352,031)	(7,565,486)
Payments for wages and benefits	(3,683,653)	(4,054,256)
Other building expenses	(402,219)	(470,330)
Net Cash Provided By Operating Activities	5,647,673	3,517,155
Cash Flows From Noncapital Financing Activities:		
Interest paid on cash deficit to general fund	(111)	(68,244)
Receipt of interfund loan receivable from traffic fund	52,908	-
Amounts drawn from (repaid to) City Treasurer	(1,406,692)	1,464,279
Receipts of loan receivable from Vermont Community Loan Fund, Inc.	20,000	-
Receipts of loan receivable from Burlington Community Development Corporation	62,100	60,267
Net Cash Provided By (Used For) Noncapital Financing Activities	(1,271,795)	1,456,302
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of refunding debt	24,880,000	-
Payment to defease anticipation note and revenue bonds	(24,705,000)	-
Proceeds of revenue anticipation note and line of credit	2,750,000	5,000,000
Repayments of revenue anticipation note and line of credit	(2,750,000)	(5,000,000)
Proceeds of grant anticipation note	610,097	2,494,021
Repayments of grant anticipation note	(377,205)	(1,675,021)
Acquisition and construction of capital assets	(6,801,203)	(7,331,503)
Payment of bond issuance costs	(436,685)	-
Capital grants	5,942,129	7,578,526
Passenger facility charges	2,284,829	2,693,995
Principal paid on revenue bonds	(2,585,000)	(2,460,000)
Principal paid on capital leases	(504,417)	(482,966)
Interest paid on revenue bond	(2,203,853)	(1,734,669)
Interest paid on other debt	(739,612)	(326,451)
Net Cash (Used For) Capital and Related Financing Activities	(4,635,920)	(1,244,068)
Cash Flows From Investing Activities:		
Net reductions (increases) in restricted cash and investments	346,264	(4,377,842)
Receipt of interest and dividends	61,174	69,516
Net Cash Provided By (Used For) Investing Activities	407,438	(4,308,326)
Net Change in Cash and Cash Equivalents	147,396	(578,937)
Unrestricted Cash and Cash Equivalents, Beginning of Year	18,783	597,720
Unrestricted Cash and Cash Equivalents, End of Year	$ 166,179	$ 18,783

(continued)

CITY OF BURLINGTON, VERMONT

AIRPORT ENTERPRISE FUND
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

(continued)

	2013	2012
Reconciliation of Operating (Loss) to Net Cash Provided By Operating Activities:		
Operating (loss)	$ (1,623,686)	$ (2,176,536)
Depreciation	6,026,159	6,172,481
Other building rents	284,209	255,722
Other income	40,603	1,704
Other building expenses	(402,219)	(470,330)
Loss on sale of capital assets	8,231	-
Changes in:		
Receivables	(440,156)	412,178
Unbilled revenues	(187,168)	166,762
Inventories	52,061	(33,466)
Other assets	-	(13,419)
Accounts payable	1,129,617	(845,611)
Accrued salaries and wages	1,190	19,448
Post employment benefits	19,964	18,886
Accrued compensated absences	(10,742)	9,336
Deferred revenue	749,610	-
Net Cash Provided By Operating Activities	$ 5,647,673	$ 3,517,155

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *The Financial Reporting Entity*

The City of Burlington, Vermont Airport Enterprise Fund (Airport Enterprise Fund) is a municipally owned airport organized in 1920. The Airport is located in South Burlington, Vermont.

The Airport Enterprise Fund is an enterprise fund within the City of Burlington, Vermont (City). As such, this financial statement is not intended to present the financial position and results of operations of the City of Burlington, Vermont as a whole.

The accounting policies of the Airport Enterprise Fund conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

B. *Basis of Presentation*

Enterprise Funds - Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Based on the above definition, the Airport Enterprise Fund is accounted for utilizing enterprise fund accounting.

C. *Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund financial statements are reported using the economic resources measurement focus. This means that all assets and liabilities associated with the operation of these funds (whether current or noncurrent) are included on the balance sheet (or statement of net position). Fund equity (i.e., total net position) is segregated into net investment in capital assets, restricted net position, and unrestricted net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

D. *Basis of Accounting*

Basis of accounting refers to when revenue and expenses are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements are prepared utilizing the accrual basis of accounting. Accordingly, revenues and expenses are recognized at the time goods and services are provided or received.

Operating revenues are defined as income received from the rent of terminal space and buildings, landing fees, concession commissions and parking receipts.

Nonoperating revenues are defined as income received from sources other than that defined above. Non-operating revenues include investment income, passenger facility charges, grant income, building rents from buildings purchased for future expansion and the sale of equipment.

Operating expenses are defined as the ordinary costs and expenses of the Airport for operations, maintenance and repairs. Operating expenses include the costs of operating the Airport and related buildings as well as administrative and general expenses and depreciation and amortization. Operating expenses do not include the principal and interest on bonds, notes or other indebtedness, certain grant expenses, amortization of bond issue costs, or expenses related to the rental of buildings purchased for future expansion.

E. *Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash*

Cash includes amounts in demand deposit accounts and cash on hand, as well as short-term investments with a maturity date within three (3) months of the date of acquisition.

Most of the cash received by the Airport Enterprise Fund is placed in the custody the City Treasurer. These are shown as Due From Other Funds. Excess cash withdrawals are shown as Due To Other Funds. Cash recorded by the Airport Enterprise Fund is combined with cash of the City in determining amounts covered by Federal Depository Insurance or by collateral held by the City's banks. As of June 30, 2013 and 2012, the majority of these amounts were either insured or secured by an irrevocable standby letter of credit issued by Federal Home Loan Bank of Pittsburgh or collateralized by U.S. Government Securities held in the bank's name for the benefit of the City.

G. *Receivables*

Receivables are shown net of an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of the receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables. Unbilled revenues consist of various revenues earned as of June 30 but not yet billed as of that date.

H. *Inventories*

Inventory quantities are determined by physical count and are valued at the lower of cost or market. Inventories at the Airport consist of maintenance supplies and parts.

I. *Capital Assets*

Property, Plant, and Equipment is recorded at cost including equipment acquired under capital leases that transfer substantially all risks of ownership to the Airport Enterprise Fund. Contributed assets are recorded at their estimated fair value at the time received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. The Airport Enterprise Fund capitalization policy considers two factors. Property will be capitalized when:

1. The combined cost to put a unit in service totals more than $1,000 and
2. The unit's estimated life is greater than one (1) year.

Interest incurred during the construction phase for enterprise fund capital assets is reflected in the capitalized value of the asset constructed, net of any interest earned on the invested proceeds during the same period.

The Airport Enterprise Fund follows the policy of charging to expenses annual amounts of depreciation which allocates the cost of plant and equipment over their estimated useful lives. The Airport Enterprise Fund employs the straight-line method for determining the annual charge for depreciation.

The depreciable lives of capital assets are as follows:

	Depreciable Lives
Land	N/A
Land improvements	5-20 Years
Buildings and improvements	50-80 Years
Machinery, equipment and vehicles	2-25 Years

J. *Interfund Balances*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

K. *Accrued Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and comp time pay and vested unpaid sick time. The accrual for unused compensated absences time, based on current pay rates, is recorded in the financial statements.

L. *Other Post-Employment Benefits*

The City has a liability for the actuarially determined costs for post-employment benefits. These costs relate to subsidized health care and life insurance.

2. CASH AND SHORT-TERM INVESTMENTS

All cash received by the Airport Enterprise Fund is placed in the Airport Revenue Fund.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City does not have a deposit policy for custodial credit risk.

3. ACCOUNTS RECEIVABLE

Receivables consist of the following:

	2013	2012
Customer/concessions receivables	$ 1,398,788	$ 1,685,424
Operating grant receivables	491,062	150,296
Total	1,889,850	1,835,720
Less: Allowance for Doubtful Accounts	(263,811)	(988,251)
Net Receivables	$ 1,626,039	$ 847,469

4. INTERGOVERNMENTAL RECEIVABLE

This balance represents reimbursements requested from the Federal Aviation Administration's Airport Improvement Program (AIP) for capital related expenditures incurred in fiscal 2013 and 2012. The receivables consist of:

	2013	2012
AIP 73	$ -	$ 186,232
AIP 74	82,107	-
AIP 76	-	4,304
AIP 78	49,035	
AIP 83	-	1,168,721
AIP 84	-	72,259
AIP 87	105,172	75,189
AIP 88	104,324	293,826
AIP 89	40,999	655,169
AIP 90	199,752	-
AIP 91	39,612	-
AIP 92	1,100,343	-
AIP 93	282,228	588,088
AIP 95	106,439	-
Other	45,907	303,862
Total	$ 2,155,918	$ 3,347,650

5. DUE FROM/TO OTHER FUND

The Airport operates as an enterprise of the City with cash transactions being deposited to its revenue fund. The City makes expenditures on behalf of the Airport and is reimbursed by the Airport with the net effect of those transactions being reflected as due to the City. At June 30, 2013, the Airport had $294,393 on deposit with the City's general fund. At June 30, 2012, the Airport owed the City's general fund $1,112,299.

6. DUE FROM BURLINGTON COMMUNITY DEVELOPMENT CORPORATION

In 2006, the Airport issued a $1,400,000 note to Burlington Community Development Corporation (BCDC), a component unit of the City, to assist in financing the construction of a new Airport support hanger. The terms of the note require monthly payments of $7,764 beginning in July, 2006 for twenty years with interest at 3%. The note is due in June, 2026. The outstanding balance at June 30 is as follows:

	2013	2012
Balance due	$ 1,001,956	$ 1,064,056
Less: current portion	(63,989)	(62,100)
Long term portion	$ 937,967	$ 1,001,956

Future maturities are anticipated to be as follows:

Fiscal Year	Principal	Interest	Total
2014	$ 63,989	$ 29,184	$ 93,173
2015	65,935	27,237	93,172
2016	67,941	25,232	93,173
2017	70,007	23,165	93,172
2018	72,136	21,036	93,172
2019 - 2023	394,959	70,903	465,862
2024 - 2027	266,989	12,529	279,518
	$ 1,001,956	$ 209,286	$ 1,211,242

7. DEFERRED CHARGES

Deferred Charges - The Airport Enterprise Fund has deferred charges related to the cost of issuing the 2011 bond anticipation note, the 2003 Series A and B Revenue Bonds, the 2000 revenue bonds and the 1997 revenue bonds. The Airport Enterprise Fund employs the straight-line method over the life of the bonds (20 years for the 2000 and 1997 bonds and 26 years for the 2003 series A and B revenue bonds) in determining the annual charge for amortization. The following is a summary of the deferred charges:

	2013	2012
Deferred charges - beginning	$ 1,034,334	$ 1,222,085
Amortization	(187,751)	(187,751)
Deferred charges - ending	$ 846,583	$ 1,034,334

8. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the changes in property, plant and equipment:

	2013			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 21,878,452	$ -	$ -	$ 21,878,452
Construction in Progress	18,554,393	6,038,041	(1,358,931)	23,233,503
Total Capital Assets, Not Being Depreciated	40,432,845	6,038,041	(1,358,931)	45,111,955
Capital Assets, Being Depreciated:				
Land Improvements	66,725,173	1,372,001	(404)	68,096,770
Buildings and Improvements	81,916,625	614,385	-	82,531,010
Machinery, Equipment and Vehicles	9,719,352	135,707	(266,372)	9,588,687
Total Capital Assets, Being Depreciated	158,361,150	2,122,093	(266,776)	160,216,467
Less Accumulated Depreciation for:				
Land Improvements	(24,486,037)	(2,999,487)	-	(27,485,524)
Buildings and Improvements	(24,543,144)	(2,503,082)	-	(27,046,226)
Machinery, Equipment and Vehicles	(4,179,422)	(524,240)	259,194	(4,444,468)
Totals	(53,208,603)	(6,026,809)	259,194	(58,976,218)
Total Capital Assets, Being Depreciated	105,152,547	(3,904,716)	(7,582)	101,240,249
Capital Assets - Net	$ 145,585,392	$ 2,133,325	$ (1,366,513)	$ 146,352,204

	2012			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 19,544,060	$ 2,437,153	$ (102,761)	$ 21,878,452
Construction in Progress	59,445,041	5,459,780	(46,350,428)	18,554,393
Total Capital Assets, Not Being Depreciated	78,989,101	7,896,933	(46,453,189)	40,432,845
Capital Assets, Being Depreciated:				
Land Improvements	38,058,273	28,669,905	(3,005)	66,725,173
Buildings and Improvements	66,105,382	15,811,243	-	81,916,625
Machinery, Equipment and Vehicles	8,309,306	1,410,046	-	9,719,352
Total Capital Assets, Being Depreciated	112,472,961	45,891,194	(3,005)	158,361,150
Less Accumulated Depreciation for:				
Land Improvements	(21,276,971)	(3,209,066)	-	(24,486,037)
Buildings and Improvements	(22,039,570)	(2,503,574)	-	(24,543,144)
Machinery, Equipment and Vehicles	(3,719,151)	(460,271)	-	(4,179,422)
Totals	(47,035,692)	(6,172,911)	-	(53,208,603)
Total Capital Assets, Being Depreciated	65,437,269	39,718,283	(3,005)	105,152,547
Capital Assets - Net	$ 144,426,370	$ 47,615,216	$ (46,456,194)	$ 145,585,392

9. LETTERS OF CREDIT

In June 2010, the Airport, through TD Bank, issued two irrevocable standby letters of credit for the benefit of the City of South Burlington totaling $447,417. The purpose of the letters of credit was to ensure the Airport performed adequate landscaping and repairs on Airport Drive as agreed upon. One letter of credit totaling $81,667 expired September 1, 2011 and the other one for $365,750 expires September 1, 2014.

10. BOND AND GRANT ANTICIPATION NOTES

Short-term liabilities outstanding as of June 30, 2013 and 2012 were as follows:

Description	Date of Issue	Interest Rate	Date of Maturity	Balance at 7/1/12	New Issues	Maturities	Balance at 6/30/13
Bond anticipation note	6/27/2011	6.5%	12/15/2012	$ 12,000,000	$ -	$ (12,000,000)	$ - (1)
Grant anticipation note	8/18/2011	variable	12/31/2013	819,000	610,097	(377,205)	1,051,892
Revenue anticipation note	11/30/2012	variable	6/30/2013	-	2,000,000	(2,000,000)	-
Revenue anticipation LOC	2/21/2013	variable	6/30/2013	-	750,000	(750,000)	-
Total				$ 12,819,000	$ 3,360,097	$ (15,127,205)	$ 1,051,892

Description	Date of Issue	Interest Rate	Date of Maturity	Balance at 7/1/11	New Issues	Maturities	Balance at 6/30/12
Bond anticipation note	6/27/2011	6.5%	12/15/2012	$ 12,000,000	$ -	$ -	$ 12,000,000
Revenue anticipation note	11/12/2011	5.0%	6/30/2012	-	5,000,000	(5,000,000)	-
Grant anticipation note	8/18/2011	variable	6/30/2012 (2)	-	2,494,021	(1,675,021)	819,000
Total				$ 12,000,000	$ 7,494,021	$ (6,675,021)	$ 12,819,000

(1) The City refunded the bond anticipation note on December 6, 2012.
(2) This was subsequently renewed to 12/31/13.

11. CAPITAL LEASE OBLIGATIONS

The Airport enters into lease agreements as the lessee for the purpose of financing the acquisition of major pieces of equipment. These lease agreements qualify as capital lease obligations for accounting purposes (even though they include clauses that allow for cancellation of the lease in the event the City does not appropriate funds in future years) and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date of the leases.

The Airport had the following leases outstanding:

	2013	2012
Capital lease for airport equipment. The rental payments are made twice a year for a total of $173,460 annually including interest at 3.214% annually, maturing on June 26, 2020.	$ 1,212,112	$ 1,387,681
Capital lease payable via the City's general master lease program for airport equipment. The rental payments are made monthly for a total of $137,958 annually including interest at 3.19% annually, maturing on July 6, 2014.	155,585	287,412
Capital lease payable via the City's general master lease program for airport equipment. The rental payments are made twice a year for a total of $249,289 annually including interest at 2.29% annually, maturing on December 25, 2014.	373,933	623,223
Total lease payments	1,741,630	2,298,316
Less: amount that represents interest	(145,969)	(198,238)
Total lease obligation	1,595,661	2,100,078
Less: amount due within one year	(518,542)	(520,825)
Capital lease obligation, net of current portion	$ 1,077,119	$ 1,579,253

Future minimum lease payments consisted of the following as of June 30, 2013:

Fiscal Year	2013
2014	$ 561,505
2015	309,602
2016	173,460
2017	173,460
2018	173,460
2019	173,460
2020	173,460
Subtotal	1,738,407
Less amounts representing interest	(142,746)
Total	$ 1,595,661

12. LONG-TERM DEBT

Revenue Bonds - The Airport issues bonds where the City pledges income to pay the debt service.

Description		Original Issue Amount	Serial Maturities Begin	Serial Maturities Through	Interest Rate(s)		Amount Outstanding as of 06/30/13
Airport Revenue Bond 2003 Series A	$	17,580,000	7/1/2015	7/1/2028	3.40 - 5.00%	$	17,580,000
Airport Revenue Bond 2003 Series B		7,220,000	7/1/2006	7/1/2014	2.00 - 3.625%		1,780,000
Airport Revenue Refunding Bond 2012 Series A		17,670,000	7/1/2019	7/1/2028	4.00 - 5.00%		17,670,000
Airport Revenue Refunding Bond 2012 Series B		7,130,000	7/1/2013	7/1/2018	3.50%		7,130,000
Airport Revenue Refunding Bond 2012 Series C		80,000	7/1/2013	7/1/2013	4.00%		80,000
Total						$	44,240,000

Description		Original Issue Amount	Serial Maturities Begin	Serial Maturities Through	Interest Rate(s)		Amount Outstanding as of 06/30/12
Airport Revenue Bond 1997 Series A	$	12,380,000	7/1/1998	7/1/2017	3.85 - 5.60%	$	5,185,000
Airport Revenue Bond 1997 Series B		7,450,000	7/1/1998	7/1/2017	4.00 - 5.75%		3,150,000
Airport Revenue Bond 2000 Series A		10,435,000	7/1/2001	7/1/2020	4.80 - 6.20%		6,110,000
Airport Revenue Bond 2003 Series A		17,580,000	7/1/2015	7/1/2028	3.40 - 5.00%		17,580,000
Airport Revenue Bond 2003 Series B		7,220,000	7/1/2006	7/1/2014	2.00 - 3.625%		2,625,000
Total						$	34,650,000

Maturities are as follows (excluding the $12,000,000 BAN and lease obligations):

Fiscal Year		Principal		Interest		Total
2014	$	1,470,000	$	1,932,101	$	3,402,101
2015		2,160,000		1,796,357		3,956,357
2016		2,215,000		1,719,699		3,934,699
2017		2,290,000		1,641,331		3,931,331
2018		2,390,000		1,558,791		3,948,791
2019 - 2023		13,300,000		6,184,238		19,484,238
2024 - 2028		16,635,000		2,748,075		19,383,075
2029		3,780,000		83,950		3,863,950
	$	44,240,000	$	17,664,542	$	61,904,542

Unamortized Premium - Debt premiums in connection with the sale of bonds are amortized over the terms of the related debt. Unamortized balances are included as a component of long-term debt.

Unamortized Discount - Debt discounts incurred in connection with the sale of bonds are amortized over the terms of the related debt. Unamortized balances are included as a component of long-term debt.

Changes in Long-Term Debt and Other Obligations are as follows:

2013

	Total Balance 7/1/12	Additions	Reduction	Refunding	Total Balance 6/30/13	Less Current Portion	Equals Long Term Portion
Airport revenue bond 1997 series A	$ 5,185,000	$ -	$ (750,000)	$ (4,435,000)	$ -	$ -	$ -
Airport revenue bond 1997 series B	3,150,000	-	(455,000)	(2,695,000)	-	-	-
Airport revenue bond 2000 series A	6,110,000	-	(535,000)	(5,575,000)	-	-	-
Airport revenue bond 2003 series A	17,580,000	-	-	-	17,580,000	-	17,580,000
Airport revenue bond 2003 series B	2,625,000	-	(845,000)	-	1,780,000	(875,000)	905,000
Airport revenue refunding bond 2012 series A	-	17,670,000	-	-	17,670,000	-	17,670,000
Airport revenue refunding bond 2012 series B	-	7,130,000	-	-	7,130,000	(515,000)	6,615,000
Airport revenue refunding bond 2012 series C	-	80,000	-	-	80,000	(80,000)	-
Total revenue bonds payable	34,650,000	24,880,000	(2,585,000)	(12,705,000)	44,240,000	(1,470,000)	42,770,000
Add unamortized premium	193,894	-	(20,597)	-	173,297	(19,666)	153,631
Subtract unamortized discount	(23,862)	-	23,862	-	-	-	-
Subtotal	34,820,032	24,880,000	(2,581,735)	(12,705,000)	44,413,297	(1,489,666)	42,923,631
Obligations under capital leases	2,100,078	-	(504,417)	-	1,595,661	(518,542)	1,077,119
Compensated absences	201,423	-	(10,742)	-	190,681	-	190,681
Net OPEB obligation	61,988	19,964	-	-	81,952	-	81,952
Total	$ 37,183,521	$ 24,899,964	$ (3,096,894)	$ (12,705,000)	$ 46,281,591	$ (2,008,208)	$ 44,273,383

2012

	Total Balance 7/1/11	Additions	Reduction	Refunding	Total Balance 6/30/12	Less Current Portion	Equals Long Term Portion
Airport revenue bond 1997 series A	$ 5,895,000	$ -	$ (710,000)	$ -	$ 5,185,000	$ (750,000)	$ 4,435,000
Airport revenue bond 1997 series B	3,580,000	-	(430,000)	-	3,150,000	(455,000)	2,695,000
Airport revenue bond 2000 series A	6,615,000	-	(505,000)	-	6,110,000	(535,000)	5,575,000
Airport revenue bond 2003 series A	17,580,000	-	-	-	17,580,000	-	17,580,000
Airport revenue bond 2003 series B	3,440,000	-	(815,000)	-	2,625,000	(845,000)	1,780,000
Total revenue bonds payable	37,110,000	-	(2,460,000)	-	34,650,000	(2,585,000)	32,065,000
Add unamortized premium	215,390	-	(21,496)	-	193,894	(20,597)	173,297
Subtract unamortized discount	(30,889)	-	7,027	-	(23,862)	6,182	(17,680)
Subtotal	37,294,501	-	(2,474,469)	-	34,820,032	(2,599,415)	32,220,617
Obligations under capital leases	2,583,044	-	(482,966)	-	2,100,078	(520,825)	1,579,253
Compensated absences	192,087	9,336	-	-	201,423	-	201,423
Net OPEB obligation	43,102	18,886	-	-	61,988	-	61,988
Total	$ 40,112,734	$ 28,222	$ (2,957,435)	$ -	$ 37,183,521	$ (3,120,240)	$ 34,063,281

The Airport purchased surety bonds on their 1997 and 2003 revenue bonds, in lieu of depositing cash in the respective Debt Service Reserve Fund prior to fiscal year 2013.

The providers of state credit facilities that were credited to the Debt Service Reserve Fund upon issuance of the Series 1997 bonds and the Series 2003 Bonds were no longer rated in the highest rating category by either Standard & Poor's, Moody's Investors Service or Fitch

Ratings, Inc. Accordingly, in fiscal year 2012, the City started to set aside funds from Airport revenues, in order to fund the Debt Service Reserve fund in cash. In fiscal year 2013, the Fund refunded the Series 1997 bonds, and placed 2003 Bonds into the Debt Service Reserve Fund.

The 1997, 2000, 2003, and 2012 (which included 1997 and 2000 refunding that occurred in fiscal year 2013) Revenue Bonds have been issued pursuant to General Bond Resolutions and are secured by a pledge of net Airport revenues. Pursuant to the General Bond Resolutions, revenues means all rates, fees, charges or other income and includes rentals, proceeds of insurance or condemnation or other disposition of assets, proceeds of bonds or notes and earnings from the investment of revenues. On an annual basis, Revenues must be sufficient after deducting Operating Expenses to meet Minimum Debt Service Coverage Requirements. If minimum Debt Service Coverage Requirements are not met, the Airport must take timely corrective action. The Airport met the required debt coverage ratio for 2013 and 2012 of 1.25, with 1.42 and 1.49, respectively.

13. CURRENT REFUNDING

On December 6, 2012, the City issued Airport Revenue Refunding Bonds in the amount of $24,880,000 with a variable interest rate ranging from 3.50% to 5.00% to:

- Currently refund the $12,000,000 Subordinate Airport Improvement Bond Anticipation Note, Series 2011, with the interest rate of 6.50% maturing on December 15, 2012 issued for the interim financing of the expansion of the parking garage at the Burlington International Airport.
- Currently refund the $12,705,000 Airport Revenue Bonds, Series 1997 and 2000 for parking improvements and airport expansion with interest rates ranging from 3.85% to 6.20% maturing between July 1, 2017 and July 1, 2020.
- Fund the $2,254,825 Debt Service Fund required for Series 2012 Bonds.
- Cover the $372,400 Series 2012 debt issuance costs.

The proceeds of $26,217,568 from the refunding bonds and debt service release funds, net of issuance costs, were used to purchase U.S. Treasury bills, bonds, notes or securities and deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on January 7, 2013. The current refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of the current refunding, the City reduced its total debt service cash flow requirements by $4.3 million through 2017 to create annual level debt service under $4.0 million through 2028, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $573,181 or 4.51% of the refunded 1997A, 1997B and 2000 Bonds.

14. RESTRICTED NET POSITION

Restricted net position is comprised of the following at June 30,

	2013	2012
Restricted for capital projects - Passenger Facility Charges	$ 1,967,134	$ 2,497,752
Restricted for Prepaid Cash Reserve (PFC)	485,234	484,632
Restricted for Debt Service Reserve	4,350,939	4,385,464
Restricted for Renewal and Replacement Fund	-	215,000
Restricted for Bond Debt Service Fund	2,845,788	3,453,479
Restricted for O & M Reserve Fund	3,101,006	1,472,324
Restricted for Bond Anticipation Note Reserve	-	387,715
Restricted for Grant Anticipation Note Reserve	300,000	500,000
Total	$ 13,050,101	$ 13,396,366

15. RETIREMENT BENEFITS

The Airport Enterprise Fund has two primary retirement plans: a single employer defined benefit plan and a deferred compensation plan through the City.

Defined Benefit Plan

All full-time employees of the Airport Enterprise Fund participate in the City of Burlington Employees' Retirement System (the Plan), a single employer defined benefit plan. The City requires a 3% contribution of base salary from each Class B employee. The City's plan covers substantially all of its employees except elected officials, other than the Mayor and the majority of the public school teachers who are eligible for the Vermont State Teachers' Retirement System. It is the policy of the City of Burlington to fund by actuarially determined periodic contributions the normal cost of the Plan plus a provision for amortization of past service costs. For the years ended June 30, 2013 and 2012, pension costs for the Airport Enterprise Fund amounted to $228,835 and $205,229, respectively. These contributions were based on 11.21% and 13.62% of base wages for 2013 and 2012, respectively.

Financial statements and further disclosures about the Plan are included in the City of Burlington, Vermont's financial statements. The Airport expects to implement GASB No. 68 in fiscal year 2015 and is evaluating the standard to determine if implementation will have a material impact on pension cost. Also, see Note 21.

Deferred Compensation Plan

The Airport Enterprise Fund offers its employees a deferred compensation plan administered through the City in accordance with Section 457 of the Internal Revenue Code (IRC). The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or for “unforeseeable emergency” as defined by IRS guidelines. The assets of the plan are not included in the accompanying financial statements.

Post-Employment Health Benefits

Beginning in fiscal year 2008, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits (OPEB) including healthcare, life insurance, and other non-pension benefits offered to retirees. This standard addresses how the City should account for and report its costs related to post-employment healthcare and other non-pension benefits, such as the City’s implicit subsidy of retiree health insurance and the School Department’s direct subsidy of retiree health insurance. Historically, the City’s subsidy was reported on a pay-as-you-go basis. GASB Statement No. 45 requires that the City recognize the cost of the retiree health subsidy during the period of employees’ active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the City. The City has adopted this standard prospectively.

The City allows certain retired employees to purchase health insurance through the City at the City’s group rates. GASB No. 45 recognizes this as an implied subsidy and requires accrual of this liability.

Funding Policy

The City funds the benefits on a pay-as-you-go basis.

Further disclosures about the Plan are included in the City of Burlington, Vermont’s financial statements.

16. RELATED PARTY TRANSACTIONS

It is the City’s policy to charge or pay interest based on outstanding balances advanced to or borrowed from the municipal funds of the City. The interest rate is based on the average interest rate which would have been earned in the City’s sweep account. Total interfund interest paid during 2013 and 2012 was $111 and $68,244, respectively.

The City Treasurer’s office charges all departments for administration and risk management fees. The City Council approves, through the budget process, the annual assessments. For the years ending June 30, 2013 and 2012 administrative and risk management fees paid to the City General Fund were $430,951 and $392,714, respectively.

The Airport Enterprise Fund contracts with the Treasurer's office to provide accounting services. The fee for fiscal year 2013 and 2012 was $266,252 and $205,442, respectively.

The Airport Enterprise Fund contracted with other City departments to provide services such as security from the Police Department at a fee of $1,108,716 and $1,066,230 for fiscal year 2013 and 2012, respectively. The Airport also contracted with the Traffic Fund to operate its parking lot and parking garage at an annual fee of $50,000.

Burlington Community Development Corporation (BCDC), (see note 6) is a component unit of the City of Burlington that was organized to carry out the industrial and economic development in the City. The Board of Directors of BCDC must all be members of the City of Burlington's Board of Finance. The City Treasurer's office prepares all accounting data for BCDC. BCDC has a ground lease with the City for a building they purchased at the Airport for $1 per year.

17. LEASES

The Airport leases office, building and ground space to various Airport related businesses, including airlines, car rental companies, food and gift concessions, governmental agencies and others. The lease rates vary and are computed based upon square footage, percentages of gross revenues and combinations of the two. The leases expire at varying dates through 2033.

Lease revenue for the year ended June 30, 2013 and 2012, was approximately $6,702,112 and $5,915,065 respectively. Future lease revenue estimated to be received in each of the next five fiscal years under these agreements are as follows:

2014	$ 6,265,949
2015	6,377,636
2016	6,574,111
2017	6,742,036
2018	6,920,086

18. COMMITMENTS AND CONTINGENCIES

Outstanding Legal Issues - There are several pending legal issues in which the Airport is involved. The Airport's management is of the opinion that the potential future settlement of such claims are either premature to speculate as to the outcome of the proceedings, or will not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies, including possible grant assurance violations at the Airport, are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Airport expects such amounts, if any, to be immaterial.

Non-Airport Related Legal Issues - The City of Burlington is a defendant in a lawsuit related to the lease that provided the financing of the City's telecommunications enterprise, known as Burlington Telecom. The lawsuit, among other things, seeks repayment of the original lease amount of $33,500,000 or the return of the assets. No revenues of the Airport were pledged for the payments under the Lease.

19. RISK MANAGEMENT

A. *Insurance*

The Airport Enterprise Fund is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee; and natural disasters. The Airport Enterprise Fund manages these risks through a combination of commercial insurance packages and through the City's risk management program.

The City carries commercial insurance to cover its property, casualty and general liability risks. Commercial property insurance, inland marine and employment practices insurance coverage is provided by Travelers and is offered on a guaranteed cost basis with a deductible of $25,000.

The Airport also carries Airport Owners and Operators General Liability insurance with the following limits:

Completed Operations Aggregate	$100 million
Personal Injury and Advertising Injury Aggregate	$50 million
Malpractice Aggregate	$50 million
Each occurrence limit	$100 million
Fire Damage – any one fire	$500,000
Medical Expenses – any one person	$10,000
Hangarkeepers Limit – any one aircraft	$100 million
Hangarkeepers Limit – any one occurrence	$100 million

The Airport's current airport liability insurance contract expires on July 1, 2014.

For Worker's Compensation, Health and Dental insurance, the City self-insures with appropriate stop-loss coverage in place to cover large claims. The stop-loss limits are as follows:

Worker's Compensation	$350,000 per occurrence and $2,758,800 in the aggregate
Health insurance	$130,000 per occurrence with no stop loss coverage
Dental insurance	The benefit from this coverage cannot exceed $1,500 per participant

All of the City’s self-insurance programs are administered by a third-party administrator, which processes and pays the claims and then bills the City for the amount of the total claims paid.

The liability recorded at June 30, 2013 and 2012 is based on the ultimate liability as determined by the City’s actuaries. Claims liabilities are established based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Settled claims for the self-insurance programs have not exceeded coverage for the past three fiscal years.

The costs associated with these self-insurance plans are budgeted in the City’s General Fund and allocated to the Airport based on the following:

Type	Allocation Method
Worker's compensation	50% Experience and 50% Exposure
Health	Number of employees and levels of coverage
Dental	Actual claims and administrative fees paid
Liability	Adjusted operating budgets
Property	Insured value of city structures

The City has elected to pay actual unemployment claims instead of enrolling in an unemployment insurance program. No liabilities have been accrued as the City is not able to make an estimate as to any future costs. The City paid $30,391 and $22,825, respectively, in unemployment claims during fiscal year 2013 and 2012. The amount attributable to the Airport Enterprise Fund is unknown as the City bills the Airport Enterprise Fund indirectly through its risk management fees.

B. *Factors Affecting the Airline Industry*

The City's ability to derive Revenues from its operation of the Airport depends upon many factors, many of which are not subject to the control of the City. Revenues may be affected by the ability of the Signatory Airlines, individually and collectively, to meet their respective obligations under the Airport Agreements. The financial results of the airline industry have been subject to substantial volatility since deregulation of the airline industry in 1978. Financial results of most airlines reflected substantial net losses. Recent years of airline mergers, takeovers, asset transfers and bankruptcies have resulted, and may continue to result, in a consolidation of the industry. The impact of further consolidation within the U.S. airline industry cannot be predicted at this time. Historically, the airline industry's results have correlated with the performance of the economy. Further bankruptcy filings, liquidations or major restructurings by members of the airline industry remain possible.

The City's ability to generate Net Revenues and PFCs depends on sufficient levels of aviation activity and passenger traffic at the Airport. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand.

The City's ability to derive Net Revenues from its operation of the Airport depends upon many factors which affect the airlines' operations at the Airport, many of which are not subject to the control of the City, including the economy, domestic and international affairs, air transportation disruptions, the threat of terrorism and international conflict, health crises, cost structure of the airlines, including the cost of aviation fuel, and labor issues. The City cannot assess the impact that these factors will have on the airline industry and, in turn, on the Net Revenues.

In addition, many factors have combined to create structural changes in the travel market that have altered consumer travel patterns. The threat of terrorism against the United States remains. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations. Additionally, consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares. Consumers have come to expect extraordinary low fares. In addition, the availability of fully transparent price information on the Internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. Consumers have shifted from purchasing paper tickets from travel agencies or airline ticketing offices to purchasing electronic tickets over the Internet. This has made pricing and marketing even more competitive in the U.S. airline industry. Smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video-conferencing.

Faced with the growth of lower-cost airlines and evolving business technology, legacy airlines (United, Delta, American, and U.S. Airways) have been forced to change their business practices, including reducing or eliminating service on unprofitable routes, reducing their workforces, implementing pay cuts, reducing fares to compete with low-cost carriers, deferring aircraft deliveries, streamlining operations and significantly increasing the use of smaller, regional jets.

The aviation industry is cyclical and subject to intense competition and variable demand. Further, airline debt levels remain high, many airlines have large unfunded pension obligations and many airlines have an aging aircraft fleet and/or aging computer systems. The airlines are vulnerable to fuel price spikes, labor activity, recession and external shocks (such as terrorism, pandemics, military conflicts and natural disasters). As a result, financial performance can fluctuate dramatically from one reporting period to the next.

The City makes no representation with respect to the continued viability of any of the carriers serving the Airport, airline service patterns, or the impact of any airline failures on the Net Revenues and PFC or CFC collections. Additionally, no assurance can be given that adverse events similar to the terrorist attacks on September 11, 2001 and related subsequent events will not happen in the future.

20. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2013, the Fund has adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

GASB 63 provides guidance for deferred outflows of resources and deferred inflows of resources and their applicability to consumption or acquisition of net position, previously referred to as net assets, by the Fund.

The effect of the implementation resulted in renaming the Net Asset statement to Net Position. The Fund does not contain items meeting the GASB 63 definition of Deferred Outflows and Inflows.

21. IMPLEMENTATION OF NEW GASB STANDARDS

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact of the Airport's basic financial statements by recognizing as a liability and expense, the Airport's applicable portion of the City of Burlington Retirement System's Actuarially Accrued Liability.