CITY OF BURLINGTON, VERMONT
AIRPORT ENTERPRISE FUND

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

MELANSON HEATH
ACCOUNTANTS • AUDITORS
40 years

102 Perimeter Road
Nashua, NH 03063
(603)882-1111
melansonheath.com

Additional Offices:
Andover, MA
Greenfield, MA
Manchester, NH
Ellsworth, ME

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, 2016 and 2015, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City of Burlington, Vermont as of June 30, 2016 and 2015, 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 Fund of the City of Burlington, Vermont as of June 30, 2016 and 2015, and the respective changes in financial position and 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, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Contributions 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 December 21, 2016 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

December 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Burlington International Airport's annual financial report, management provides a narrative discussion and analysis of the financial activities for the year ended June 30, 2016. The Airport'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 statement of net position, (2) the statement of revenues, expenses and changes in net position, (3) the statement 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, 2016, it shows our net position of $131,313,359, a change of $6,681,077 in comparison to the prior year.

> The largest portion of net position, $113,903,269, reflects our net investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. This portion of net position increased $4,319,564 from the prior year primarily from the acquisition of capital assets from AIP Grants less depreciation expense exceeding the debt service principal payment during the fiscal year.
>
> An additional portion of net position, $13,347,517, (restricted net position) represents resources that are subject to external restrictions on how they may be used. This portion of net position increased $1,104,218 from the prior year primarily from the increase in restricted PFC balance.
>
> The remaining balance of unrestricted net position was $4,062,573. This portion of net position increased $1,257,295 from the prior year from a variety of reasons including principal debt service payment being less than asset depreciation (which reduced net investment in capital assets, as noted above, and increased unrestricted net positon) and operations.

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, 2016 was $6,681,077. There are two significant components of this increase. The first is the net loss before capital contributions of $(954,420) 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 Federal Aviation Administration (FAA) and the State of Vermont for capital improvement of $7,635,497. 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 2016.

Financial Highlights:

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

Summary of Net Position (000s)

	2016	2015	2014
Assets:			
Current and other assets	$ 23,000	$ 19,908	$ 18,313
Capital assets	153,755	150,781	149,764
Total assets	176,755	170,689	168,077
Deferred outflows of resources	1,279	803	-
Total assets and deferred outflows of resources	$ 178,034	$ 171,492	$ 168,077
Liabilities:			
Current liabilities	$ 5,015	$ 3,905	$ 4,122
Long term debt	41,706	42,803	44,302
Total liabilities	46,721	46,708	48,424
Deferred inflows of resources	-	152	-
Net position:			
Net investment in capital assets	113,903	109,584	105,762
Restricted	13,347	12,243	12,944
Unrestricted	4,063	2,805	947
Total net position	131,313	124,632	119,653
Total liabilities, deferred inflows of resources and net position	$ 178,034	$ 171,492	$ 168,077

Summary of Changes in Net Position (000s)

		2016		2015		2014
Operating revenues	$	16,303	$	16,640	$	16,208
Operating expenses		(18,044)		(17,811)		(18,857)
Operating (loss)		(1,741)		(1,171)		(2,649)
Nonoperating revenues (expenses)						
Other revenue		3,046		3,182		2,947
Other expense		(2,259)		(2,966)		(2,402)
Total nonoperating revenues		787		216		545
Net income (loss) before capital contributions		(954)		(955)		(2,104)
Capital contributions - grant		7,635		6,508		7,126
Capital contributions - other		-		-		454
Total capital contributions		7,635		6,508		7,580
Change in net position		6,681		5,553		5,476
Beginning net position, as restated		124,632		119,079 *		114,177
Ending net position	$	131,313	$	124,632	$	119,653

* July 1, 2014 net position was restated for GASB 68, while prior periods were not restated. See Note 22.

Operating revenues changed by $(336,889) in 2016, a decrease of 2%. Reasons for this change can be found in the Revenues section of this MD&A.

Operating expenses changed by $233,378 in 2016, an increase of 1.3%. This change is attributed to the GASB 68 effect on pension expense.

Capital Assets:

Capital Assets - Net capital assets changed by $2,973,291 in 2016. This change is primarily the difference between current year additions, net of $8,901,933 and annual depreciation expense of $5,928,642.

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 $38,557,769, 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.

Historical Airport Operating and Financial Performance

The City accounts for the financial operations of the Airport as an Enterprise Fund. 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 through 2016, the Airport satisfied its Rate Covenant under the Resolution. The Rate Covenant requires the Airport to generate annual Revenues, net of Operating Expenses, of no less than 1.25 times Debt Service, and sufficient to meet all funding requirements for the Funds and Accounts under the Resolution. The City has paid all 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 and certain debt service.

The following table shows each of these revenue items since fiscal year 2012:

Historical Revenues (000s)

	Fiscal Year Ended June 30				
	2012	**2013**	**2014**	**2015**	**2016**
Airline Revenues					
Terminal Revenues	$ 2,069	$ 2,114	$ 2,237	$ 2,447	$ 2,619
Landing Fee Revenues	1,769	1,623	1,501	1,630	1,671
Total Airline Revenues	**3,838**	**3,737**	**3,738**	**4,077**	**4,290**
Non-Airlines Revenues					
Parking Lot/Garage	7,050	5,870	5,894	5,742	5,407
Car Rental Concessions	1,738	1,868	2,119	2,114	1,911
Terminal & Airfield Concessions	623	-	-	-	-
Terminal Concessions	-	469	657	670	654
Terminal Non-Airline Rent	-	510	538	578	580
Building and Ground Rent	1,000	1,223	1,247	1,329	1,274
Other Non-Airline Revenues	793	798	748	919	958
Total Non-Airline Operating Revenues	**11,204**	**10,738**	**11,203**	**11,352**	**10,784**
CFC Revenues [1]	**-**	**1,155**	**1,267**	**1,211**	**1,229**
Total Operating Revenues	**$ 15,042**	**$ 15,630**	**$ 16,208**	**$ 16,640**	**$ 16,303**
Y-O-Y Operating revenue Growth		**3.9%**	**3.7%**	**2.7%**	**-2.0%**
PFC Revenues	**$ 2,694**	**$ 2,285**	**$ 2,586**	**$ 2,391**	**$ 2,321**

[1] Prior to FY 2013, CFC Revenues were included as part of Parking Lot/Garage Revenues

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. The Airport has established five airport cost centers in order to fairly allocate Airport operating costs among the airlines and other tenants. The Airport's management completed negotiations with the Airlines in the Fall of 2016. As of the audit report date, several Airlines have signed agreements. The Airport expects all major airlines to sign the new five year contract. The new Airport Use Agreement, which is a residual method contract, outlines the airline rates and charges methodology which are in effect through June 30, 2021.

In Fiscal Year 2016, airline rates and charges increased 5.3% from the prior year. The Airport for Fiscal Year 2016 increased the terminal rents and landing fees by approximately $213,000, due to the rate increase. Terminal and landing fee revenue represented approximately 26% of the Airport's total Revenue in Fiscal Year 2016.

Parking

The City has made substantial investments since 2009 to expand parking capacity and to connect the north garage to the Airport with an enclosed second story walkway.

Current parking fees in the garage are $12 per day. Parking revenues represented approximately 33% of the Airport's total Operating Revenue in Fiscal Year 2016, with a decrease of 6% from the previous year.

Car Rental Facilities

Car rental revenues represented approximately 12% of the Airport's total Revenue in Fiscal Year 2016. Car Rental revenues decreased 9% from the previous year. Car rental facilities occupy office and counter space within the terminal building adjacent to the luggage receiving area. Over the past six years, collectively, the car rentals have had a minimum annual revenue guarantee (MAG) of approximately $1.7 million per year, but the rental car companies have generated more revenue than the guaranteed minimum. In Fiscal Year 2016, the rental car companies generated Revenues to the airport approximately $194,000 above the MAG, while in Fiscal Year 2015 revenues were approximately $335,000 above MAG. In the fall of 2015, the Airport finalized car rental concession agreements with Avis/Budget, Hertz, Dollar, Enterprise, National/Alamo, which are in effect through June 30, 2020.

In addition to terminal space, the rental car companies also occupy the second floor north of the parking garage and an onsite car wash facility immediately north of the FAA Control Tower. The Airport imposes a $4 per day CFC on each car rental transaction, which resulted in approximately $1.2 million in revenue during Fiscal Year 2016. Approximately half of the collected CFCs are utilized to support the Debt Service allocable to the parking garage expansion and operating expenses of the garage per the car rental agreements. The City has allocated the other half of the CFC charges collected to design costs and future construction of a consolidated car wash/return facility to replace the existing facility. This new facility will also provide the airport with an opportunity for an additional revenue stream in the form of land lease and potentially transactions fees once it is constructed.

Terminal Concessions

Terminal concessions, such as food vendors Skinny Pancake, and gift/necessities vendors, such as Hudson News and other similar establishments, provide a variety of services for passengers, visitors and employees at the Airport. Skinny Pancake, a local restaurant with three locations at the Airport, and newly expanded Hudson News facilities opened in Fiscal Year 2013. Food concession revenues exceeded expectations for Fiscal Year 2016.

Terminal concession revenues represented approximately 4% or $653,500 of the Airport's total Revenue in Fiscal Year 2016. The Airport realized concession revenue growth during Fiscal Year 2014 and these revenues remained strong and stable during Fiscal Year 2015 and 2016.

Buildings, Grounds and Airfield Concession Revenues

Building and ground rent and airfield concession revenues ("Other Non-Airline Revenues") include revenue from 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.

Buildings, grounds and airfield concession revenues represented approximately 12% of the Airport's total Revenue in Fiscal Year 2016. During Fiscal Year 2016, these revenues remained stable from Fiscal Year 2015.

Other Revenue

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

The Airport has applied for and received authorization from the FAA to impose and collect PFCs to fund many of the capital improvements it has initiated since 1997. Currently, the Airport receives approximately $2.3 million annually in PFC revenues, of which approximately $1.1 million are used to pay that portion of Bond Debt Service attributable to authorized PFC projects.

As of June 30, 2016, the Airport had approximately $2.6 million on deposit in the PFC Revenue Account, which is adequate to pay for the PFC projects being financed with Airport Revenue Bonds. The Airport expects to continue to apply for authority to impose and collect PFCs for future projects under applicable 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 services that are provided by the VT Air National Guard (VTANG) as part of its lease with the Airport, saving the Airport approximately $2.5 million annually.

Salaries and benefits increased 7% from Fiscal Year 2015 to Fiscal Year 2016, which is primarily because of benefit cost increases (approx. 5%) and approximately 2% from COLA increases. Service contracts represent third party maintenance and other non-capital projects. The City interdepartmental expenses are the amounts reimbursed by the Airport to the City for financial, legal and other necessary services the City provides to support the operations of the Airport. The City and Airport implemented a requirement that all purchases require a purchase order, and this is tracked within the accounting software package. The new purchase order requirement is intended to ensure that no expense is over the budgeted plan.

Recent Financial Performance

Airport Net Revenue was determined to have been above the Rate Covenant requirement of 1.25% of Debt Service in Fiscal Years 2011 through 2016. Debt Service, Operation and Maintenance expenses and other obligations of the Airport were fully and timely paid in each of those years.

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 increasing non-airline dependent revenues and maintaining debt service coverage in accordance with the requirements of the Resolution.

The Airport finalized negotiations with the Airlines in the Fall of 2016. The City of Burlington City Council unanimously approved a resolution on December 12, 2016 granting the Director of Aviation authority to execute Airline Lease agreement with the Airlines. The Airline's most recent lease was executed in 1996. This new agreement calls for the terms to commence as of July 1, 2016, and continue for 5 years. The Airline lease sets the precedent for the methodology used to establish rates and charges, including landing fees, apron fees, and terminal rental rates. This basic methodology is referred to as a residual calculation giving greater risk to the airlines, while providing a sustainable financial future for the airport.

In future Fiscal Years, as was done in Fiscal Years 2011-2016, the Airport expects to employ a portion of its PFC revenues in its coverage calculations, consistent with current FAA regulations as to the use of these revenues. In Fiscal Year 2016, the City continued to hold Airport funds in segregated accounts and use such Revenues only 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, in accordance with FAA regulations. 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 allocable to such projects.

The City and the Airport are continuing to carefully review any opportunity to increase revenues and decrease expenses. The Airport continually evaluates smart ways to increase non-airline revenues to help balance rates and charges billed to the Airlines. All expiring leases are being viewed as opportunities to improve the facility and increase rental revenue. The Airport also is continuing to request 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 $124,000 in Fiscal Year 2016.

It is the goal of these initiatives to (i) provide additional transparency in the handling of Airport funds; (ii) ensure timely and proactive responses to any unusual or unexpected financial events with respect to the Airport; and (iii) achieve Debt Service coverage well in excess of the Resolution's mandate of 125% of Debt Service. The new Airline Lease agreement, currently out for signatures, negotiated into the agreement that the airport debt coverage ratio will be 150% of Debt Service. If the Airport debt coverage ratio exceeds 150% at year end, starting with Fiscal Year 2017, a credit will be issued back to the Airlines. If the Airport has less than 200 days cash on hand, only 50% of any overpayments will be due back to the airlines.

We believe this presentation tells our most accurate success story from fiscal years 2012 through 2016.

Rate Covenant Calculation
From FY 2012 to 2016 (000s)

	Fiscal Year Ended June 30				
	2012	**2013**	**2014**	**2015**	**2016**
Revenues	$ 15,080	$ 15,890	$ 16,382	$ 16,933	$ 16,677
O&M Expenses (as defined)	11,259	11,731	12,508	12,347	12,376
Net Revenues (as defined)	$ 3,821	$ 4,159	$ 3,874	$ 4,586	$ 4,301
PFC Revenues Available for DS	$ 1,939	$ 1,938	$ 1,291	$ 1,284	$ 1,087
Funds Available for DS	$ 5,760	$ 6,097	$ 5,165	$ 5,870	$ 5,388
25% PFC Revenue for DS coverage	485	485	323	321	272
Adjusted funds Available for DS	$ 6,245	$ 6,582	$ 5,488	$ 6,191	$ 5,660
Debt Service	$ 4,195	$ 4,268	$ 3,402	$ 3,956	$ 3,386
Debt Service Coverage	**1.37**	**1.43**	**1.52**	**1.48**	**1.59**
Adjusted Debt Service Coverage	**1.49**	**1.54**	**1.61**	**1.56**	**1.67**

Liquidity

The following table reflects changes to the Fund's Liquidity since fiscal year 2012:

Liquidity Position (000s) ***Fiscal Year Ended June 30***

Cash and Investment balances	**2012**	**2013**	**2014**	**2015**	**2016**
Unrestricted cash[1]	$ 19	$ 167	$ 1,440	$ 2,442	$ 4,271
O&M Reserve	1,472	3,101	3,155	3,288	3,295
Renewal and Replacement Reserve	215	215	215	215	216
PFCs[2]	2,498	1,967	1,242	1,955	2,685
PFC Rolling Coverage	485	485	486	487	488
Debt Service Reserve Fund	4,600	4,351	4,047	3,740	3,782
Bond Debt Service Reserve[3]	3,453	2,846	3,798	2,558	2,882
BAN Reserve	388	-	-	-	-
Grant Anticipation Note Reserve	500	300	-	-	-
Total cash and investments	**$ 13,630**	**$ 13,432**	**$ 14,383**	**$ 14,685**	**$ 17,619**

[1] *At 6/30/16, includes $3,038 in CFC Funds intended to be used for additional RAC facilities and $679 in contributions for a potential new Aviation Tech Center. At June 30, 2015, includes $2,276 in CFC Funds, and $679 in contributions for a potential new Aviation Tech Center.*

[2] *As a result of fiscal year 2015 refunding, our debt service requirements decreased, thereby providing for an increase in our year-end PFC cash position.*

[3] *Represents 1/6 Interest and 1/12 Principal Payments*

The current year increase in cash and investments of $2,933,037 is primarily due to an increase of $1,828,819 in unrestricted cash and an increase of $730,965 in PFC reserves. Increase in unrestricted cash partly relates to timing of payments made to vendors (current year accounts payable is higher than prior year) and the current year use of the line of credit for AIP related expenses drawn on prior to grant reimbursement.

Bond Rating Changes

On November 12, 2014, Moody's Investors Service upgraded to Baa3 from BA1 Burlington Airport's Revenue bonds, and assigned a Baa3 rating to the upcoming series 2014A bonds. The rating was maintained by Moody's on December 11, 2015.

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
STATEMENT OF NET POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current:		
Cash and cash equivalents	$ 4,271,079	$ 2,442,260
Accounts receivable, net of allowance for doubtful accounts	1,382,747	1,217,605
Intergovernmental receivables	2,634,698	2,543,938
Unbilled receivables	312,480	322,534
Inventory	247,544	266,194
Due from Burlington Community Development Corp.	70,007	67,941
Accrued interest receivable	-	15
Total current assets	8,918,555	6,860,487
Noncurrent:		
Restricted cash for passenger facility charges (PFC)	2,685,078	1,955,129
Restricted cash for prepaid cash reserve (PFC)	487,792	486,776
Restricted cash for R&R reserve fund	216,247	215,764
Restricted cash for debt service reserve	1,217,999	1,515,851
Restricted cash for bond debt service fund	2,881,487	2,558,285
Restricted cash for O&M reserve fund	3,294,755	3,287,966
Restricted investment for debt service reserve	2,564,159	2,223,528
Due from Burlington Community Development Corp.	734,084	804,091
Land and construction in progress	56,119,246	58,087,086
Capital assets, net of accumulated depreciation	97,635,505	92,694,374
Total noncurrent assets	167,836,352	163,828,850
TOTAL ASSETS	176,754,907	170,689,337
DEFERRED OUTFLOWS OF RESOURCES		
Pension related:		
Changes in proportional share of contributions	712,624	521,592
Difference between actual and expected experience	102,628	-
Difference between projected and actual investment earnings	193,578	-
Deferred current year pension contributions	270,003	281,375
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,278,833	802,967
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 178,033,740	$ 171,492,304

(continued)

CITY OF BURLINGTON, VERMONT

AIRPORT ENTERPRISE FUND
STATEMENTS OF NET POSITION

JUNE 30, 2016

(continued)

	2016	2015
LIABILITIES		
Current:		
Accounts payable	$ 2,082,976	$ 1,587,993
Accrued liabilities	61,870	87,561
Unearned revenue	1,384,957	1,331,516
Accrued interest	837,762	897,879
Line of credit	646,602	-
Current portion of capital leases payable	154,786	150,798
Current portion of revenue bonds payable	2,198,155	1,842,077
Total current liabilities	7,367,108	5,897,824
Noncurrent:		
Capital leases payable, net of current portion	492,324	647,110
Revenue bonds payable, net of current portion	36,359,614	38,557,770
Accrued employee compensated absences	192,783	200,047
Other post-employment benefits	139,084	126,442
Net pension liability	2,169,468	1,278,506
Total noncurrent liabilities	39,353,273	40,809,875
TOTAL LIABILITIES	46,720,381	46,707,699
DEFERRED INFLOWS OF RESOURCES		
Pension related:		
Difference between projected and actual investment earnings	-	152,323
NET POSITION		
Net investment in capital assets	113,903,269	109,583,705
Restricted	13,347,517	12,243,299
Unrestricted	4,062,573	2,805,278
TOTAL NET POSITION	131,313,359	124,632,282
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 178,033,740	$ 171,492,304

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

CITY OF BURLINGTON, VERMONT

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

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating Revenues:		
Charges for services	$ 16,148,693	$ 16,494,977
Intergovernmental	154,266	144,871
Total Operating Revenues	16,302,959	16,639,848
Operating Expenses:		
Personnel costs	4,106,060	3,677,473
Non-personnel costs	8,009,403	8,323,633
Depreciation	5,928,642	5,809,621
Total Operating Expenses	18,044,105	17,810,727
Operating Loss	(1,741,146)	(1,170,879)
Other Income (Expenses):		
Passenger facility charges	2,321,431	2,390,880
Interest income	80,386	54,186
Amortization of bond premium	192,077	350,422
Interest expense and fiscal charges	(1,709,619)	(2,478,256)
Building rent	352,769	327,614
Building rental expenses	(549,408)	(488,206)
Gain on sale of asset	29,149	18,174
Other income	69,941	41,257
Total Other Income (Expenses)	786,726	216,071
Net Loss Before Capital Contributions	(954,420)	(954,808)
Capital contributions - AIP Grants	7,635,497	6,508,327
Change in Net Position	6,681,077	5,553,519
Net Position at Beginning of Year, as restated	124,632,282	119,078,763
Net Position at End of Year	$ 131,313,359	$ 124,632,282

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

CITY OF BURLINGTON, VERMONT

AIRPORT ENTERPRISE FUND
STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Receipts from customers and users	$ 16,116,987	$ 16,433,013
Receipts of operating grants	154,266	144,871
Other building rents	352,769	327,614
Payments to suppliers	(7,509,186)	(8,574,044)
Payments for wages and benefits	(3,850,185)	(3,564,240)
Other building expenses	(549,408)	(488,206)
Net Cash Provided By Operating Activities	4,715,243	4,279,008
Cash Flows From Noncapital Financing Activities:		
Interest paid on cash deficit to general fund	(4,077)	(21,979)
Loan payments from Burlington Community Development Corporation	67,956	65,941
Net Cash Provided By Noncapital Financing Activities	63,879	43,962
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of refunding debt	-	15,660,000
Proceeds from premium	-	1,906,637
Payment to defease revenue bond	-	(17,580,000)
Payment of bond issuance costs	-	(615,177)
Acquisition and construction of capital assets	(8,908,219)	(6,826,833)
Proceeds from sale of assets	35,434	-
Capital grants	7,544,737	5,290,570
Passenger facility charges	2,321,431	2,390,880
Drawdowns on line of credit	1,017,925	-
Repayment of line of credit	(371,323)	-
Principal paid on revenue bonds	(1,650,000)	(2,160,000)
Principal paid on capital leases	(150,798)	(280,521)
Interest paid on revenue bond	(1,675,525)	(1,810,292)
Interest paid on other debt	(90,134)	(50,293)
Net Cash (Used For) Capital and Related Financing Activities	(1,926,472)	(4,075,029)
Cash Flows From Investing Activities:		
Increase (decrease) in restricted cash and investments	(1,104,219)	700,306
Receipt of interest and dividends	80,388	54,186
Net Cash Provided By (Used For) Investing Activities	(1,023,831)	754,492
Net Change in Cash and Cash Equivalents	1,828,819	1,002,433
Unrestricted Cash and Cash Equivalents, Beginning of Year	2,442,260	1,439,827
Unrestricted Cash and Cash Equivalents, End of Year	$ 4,271,079	$ 2,442,260

(continued)

CITY OF BURLINGTON, VERMONT

AIRPORT ENTERPRISE FUND
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

(continued)

	2016	2015
Reconciliation of Operating Loss to Net Cash Provided By Operating Activities:		
Operating loss	$ (1,741,146)	$ (1,170,879)
Depreciation	5,928,642	5,809,621
Other building rents	352,769	327,614
Other income	69,941	59,431
Other building expenses	(549,408)	(488,206)
Changes in:		
Receivables	(165,142)	(161,947)
Unbilled revenues	10,054	32,283
Inventories	18,650	(15,656)
Prepaids	-	4,583
Deferred outflows of resources, pension related	(475,866)	(591,088)
Accounts payable	494,982	(236,730)
Accrued salaries and wages	(12,276)	32,505
Post employment benefits	12,642	23,000
Accrued compensated absences	(7,264)	3,746
Accrued liabilities	(13,415)	(2,608)
Unearned revenue	53,441	8,269
Net pension liability	890,962	492,747
Deferred inflows of resources, pension related	(152,323)	152,323
Net Cash Provided By Operating Activities	$ 4,715,243	$ 4,279,008

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

The 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 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 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 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. Nonoperating revenues include investment income, passenger facility charges (PFC), 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 Equivalents and Investments*

Deposits with financial institutions consist primarily of demand deposits and savings accounts.

Cash recorded by the 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.

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Fund consist of debt related securities which are carried at fair value.

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*

Capital assets, which include property, land improvements, buildings and improvements, vehicles, and equipment is recorded at cost including equipment acquired under capital leases that transfer substantially all risks of ownership to the Fund. Contributed assets are recorded at acquisition 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 Fund's capitalization policy considers two factors. Property will be capitalized when:

1. The combined cost to put a unit in service totals more than $10,000.
2. The unit's estimated life is greater than five (5) years.

Interest incurred during the construction phase for the 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 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 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 improvements	30 Years
Buildings and improvements	25 - 150 Years
Infrastructure	10 - 40 Years
Machinery, equipment and vehicles	5 - 15 Years

J. *Long-Term Obligations*

In the Fund's statements revenue bonds payable, capital leases payable, accrued employee compensated absences, other post-employment benefits (OPEB), and net pension liability are reported as long term liabilities.

2. CASH AND CASH EQUIVALENTS

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. As of June 30, 2016 and 2015 the Fund's bank balance was $14,959,082 and $14,669,820 respectively. Disclosures related to collateralization are included in the City's Comprehensive Annual Financial Report.

3. INVESTMENTS

A. *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

The Fund invests in US Treasury Notes, which have an implied credit rating of AAA.

B. *Custodial Credit Risk*

The custodial credit risk for investments is the risk that, in the event of the 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 Fund does not have a policy for custodial credit risk.

C. *Concentration of Credit Risk*

The Fund does not have an investment in one issuer greater than 5% of the total investments for the City.

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Fund's investment in US Treasury Notes have maturities of one to five years.

E. *Fair Value*

The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the investments.

The fair value of the Fund's investment in US Treasuries were determined based on "Level 2" inputs. The valuation techniques used to measure the fair value of the "Level 2" instruments were valued based on quoted market prices or model-driven valuations using significant inputs derived from or corroborated by observable market data. The Fund does not have any marketable securities in the "Level 1" or "Level 3" category.

4. ACCOUNTS RECEIVABLE

Receivables consisted of the following:

	2016	2015
Customer/concessions receivables	$ 1,409,068	$ 1,243,926
Less: Allowance for Doubtful Accounts	(26,321)	(26,321)
Net Receivables	$ 1,382,747	$ 1,217,605

5. INTERGOVERNMENTAL RECEIVABLE

The majority of this balance represents reimbursements requested from the Federal Aviation Administration's Airport Improvement Program (AIP), and State Department of Transportation, for capital related expenditures incurred in fiscal 2016 and 2015. Additional receivables represent other reimbursements from Federal and local governments. The receivables consisted of:

	2016	2015
Airport Improvement Projects:		
AIP 74 - 2009 Noise Land Acquisition	$ -	$ 197,262
AIP 78 - 2010 Noise Land Acquisition (A)	1,991	86,843
AIP 81 - 2010 Property Acquisition	67,115	155,497
AIP 84 - 2010 Noise Land Acquisition (B)	1,015	71,017
AIP 87 - 2011 Noise Land Acquisition (A)	3,344	178,151
AIP 88 - 2011 Noise Land Acquisition (B)	59,248	105,083
AIP 91 - Part 150 NEM Update	3,342	77,584
AIP 92 - 2012 Noise Land Acquisition (A)	76,044	179,450
AIP 94 - 2012 Noise Land Acquisition (B)	60,713	217,905
AIP 95 - Taxiway B Reconstruction	-	601,478
AIP 96 - Cargo Apron Rehab	-	75,879
AIP 97 - Design Update Security	64,386	63,314
AIP 101 - Security System Update	189,036	-
AIP 102 - Taxiway K (South)	-	106,992
AIP 103 - Air Carrier Apron Phase II	220,738	-
AIP 104 - Taxiway K Construction	820,135	-
AIP 105 - 2015 Noise Land Acquisition	221,002	-
AIP 106 - Glycol Project	258,142	72,096
AIP 107 - Air Carrier Apron Phase III	61,862	-
Other	275,830	236,736
Other Intergovernmental:		
City of South Burlington - property tax refund	117,955	-
Law Enforcement Officer Grant	75,266	118,651
Other	57,534	-
Total	$ 2,634,698	$ 2,543,938

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:

	2016	2015
Balance due	$ 804,091	$ 872,032
Less: current portion	(70,007)	(67,941)
Long term portion	$ 734,084	$ 804,091

Future maturities are anticipated to be as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 70,007	$ 23,165	$ 93,172
2018	72,136	21,036	93,172
2019	74,330	18,842	93,172
2020	76,591	16,581	93,172
2021	78,921	14,251	93,172
2022 - 2026	432,106	33,788	465,894
	$ 804,091	$ 127,663	$ 931,754

7. PROPERTY, PLANT AND EQUIPMENT

Capital asset activity for the years ended June 30 was as follows:

	2016			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 23,066,462	$ 864,910	$ -	$ 23,931,372
Construction in progress	35,020,624	5,382,299	(8,215,049)	32,187,874
Total capital assets, not being depreciated	58,087,086	6,247,209	(8,215,049)	56,119,246
Capital assets, being depreciated:				
Land improvements	68,169,214	9,440,361	-	77,609,575
Buildings and improvements	84,552,248	1,055,345	-	85,607,593
Machinery, equipment and vehicles	10,332,419	380,353	(85,474)	10,627,298
Total capital assets, being depreciated	163,053,881	10,876,059	(85,474)	173,844,466
Less accumulated depreciation for:				
Land improvements	(32,768,475)	(2,798,610)	-	(35,567,085)
Buildings and improvements	(31,984,299)	(2,527,534)	-	(34,511,833)
Machinery, equipment and vehicles	(5,606,733)	(602,498)	79,188	(6,130,043)
Total accumulated depreciation	(70,359,507)	(5,928,642)	79,188	(76,208,961)
Total capital assets, being depreciated, net	92,694,374	4,947,417	(6,286)	97,635,505
Total capital assets, net	$ 150,781,460	$ 11,194,626	$ (8,221,335)	$ 153,754,751

	2015			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 21,878,462	$ 1,188,000	$ -	$ 23,066,462
Construction in progress	29,569,076	5,737,310	(285,762)	35,020,624
Total capital assets, not being depreciated	51,447,538	6,925,310	(285,762)	58,087,086
Capital assets, being depreciated:				
Land improvements	68,135,260	33,954	-	68,169,214
Buildings and improvements	84,527,975	24,273	-	84,552,248
Machinery, equipment and vehicles	10,203,361	129,058	-	10,332,419
Total capital assets, being depreciated	162,866,596	187,285	-	163,053,881
Less accumulated depreciation for:				
Land improvements	(30,128,127)	(2,640,348)	-	(32,768,475)
Buildings and improvements	(29,415,441)	(2,568,858)	-	(31,984,299)
Machinery, equipment and vehicles	(5,006,318)	(600,415)	-	(5,606,733)
Total accumulated depreciation	(64,549,886)	(5,809,621)	-	(70,359,507)
Total capital assets, being depreciated, net	98,316,710	(5,622,336)	-	92,694,374
Total capital assets, net	$ 149,764,248	$ 1,302,974	$ (285,762)	$ 150,781,460

8. ACCOUNTS PAYABLE

Accounts payable and accrued liabilities represent 2016 expenditures paid on or after July 1, 2016.

9. SHORT TERM DEBT - LINE OF CREDIT

The Fund used a line of credit to finance airport improvement projects prior to grant reimbursement from the Federal Aviation Administration and the State Department of Transportation. On September 22, 2015, the Fund entered into Grant Anticipation Line of Credit in the principal amount of up to $7,000,000 with an interest rate of $2.75% which matures on September 20, 2016.

Short term debt activity for the year ended June 30, 2016 was as follows:

Description	Balance at 7/1/15	Draws	Repayments	Balance at 6/30/16
Line of credit	$ -	$ 1,017,925	$ (371,323)	$ 646,602

10. CAPITAL LEASE OBLIGATIONS

The Fund 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 Fund had the following leases outstanding at June 30:

	2016	2015
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.	$ 693,840	$ 867,301
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 $1,752 annually including interest at 1.96% annually, maturing on November 18, 2016.	876	2,627
Total lease payments	694,716	869,928
Less: amount that represents interest	(47,606)	(72,020)
Total lease obligation	647,110	797,908
Less: amount due within one year	(154,786)	(150,798)
Capital lease obligation, net of current portion	$ 492,324	$ 647,110

Future minimum lease payments consisted of the following as of June 30, 2016:

Fiscal Year	
2017	$ 174,336
2018	173,460
2019	173,460
2020	173,460
Subtotal	694,716
Less amounts representing interest	(47,606)
Total	$ 647,110

The following is an analysis for the leased assets included in capital assets at June 30:

	2016	2015
Machinery, vehicles and equipment	$ 1,497,912	$ 1,497,912
Less: accumulated depreciation	(374,478)	(299,582)
Equipment under capital leases, net	$ 1,123,434	$ 1,198,330

11. LONG-TERM DEBT

Revenue Bonds - The Fund issues bonds where the City pledges income to pay the debt service. Revenue bonds outstanding at June 30 are as follows:

2016

Description	Original Issue Amount	Serial Maturities Begin	Serial Maturities Through	Interest Rate(s)	Amount Outstanding as of 06/30/16
Revenue Refunding Bond 2012 Series A	$ 17,670,000	7/1/2019	7/1/2028	4.00 - 5.00%	$ 17,670,000
Revenue Refunding Bond 2012 Series B	$ 7,130,000	7/1/2013	7/1/2018	3.50%	4,085,000
Revenue Refunding Bond 2014 Series A	$ 15,660,000	7/1/2015	7/1/2030	4.00 - 5.00%	15,285,000
Total					$ 37,040,000

2015

Description	Original Issue Amount	Serial Maturities Begin	Serial Maturities Through	Interest Rate(s)	Amount Outstanding as of 06/30/15
Revenue Refunding Bond 2012 Series A	$ 17,670,000	7/1/2019	7/1/2028	4.00 - 5.00%	$ 17,670,000
Revenue Refunding Bond 2012 Series B	$ 7,130,000	7/1/2013	7/1/2018	3.50%	5,360,000
Revenue Refunding Bond 2014 Series A	$ 15,660,000	7/1/2015	7/1/2030	4.00 - 5.00%	15,660,000
Total					$ 38,690,000

Maturities are as follows (excluding the lease obligations):

Fiscal Year	Principal	Interest	Total
2017	$ 2,015,000	$ 1,634,938	$ 3,649,938
2018	2,110,000	1,551,838	3,661,838
2019	2,195,000	1,465,063	3,660,063
2020	2,245,000	1,364,675	3,609,675
2021	2,355,000	1,249,675	3,604,675
2022 - 2026	13,645,000	4,390,576	18,035,576
2027 - 2031	12,475,000	1,200,325	13,675,325
	$ 37,040,000	$ 12,857,090	$ 49,897,090

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.

Changes in long-term debt and other obligations are as follows for the year ended June 30:

	2016						
	Total Balance 7/1/15	Additions	Reduction	Refunding	Total Balance 6/30/16	Less Current Portion	Equals Long Term Portion
Revenue refunding bond 2012 series A	$ 17,670,000	$ -	$ -	$ -	$ 17,670,000	$ -	$ 17,670,000
Revenue refunding bond 2012 series B	5,360,000	-	(1,275,000)	-	4,085,000	(1,305,000)	2,780,000
Revenue refunding bond 2014 series A	15,660,000	-	(375,000)	-	15,285,000	(710,000)	14,575,000
Total revenue bonds payable	38,690,000	-	(1,650,000)	-	37,040,000	(2,015,000)	35,025,000
Add unamortized premium	1,709,847	-	(192,078)	-	1,517,769	(183,155)	1,334,614
Subtotal	40,399,847	-	(1,842,078)	-	38,557,769	(2,198,155)	36,359,614
Obligations under capital leases	797,908	-	(150,798)	-	647,110	(154,786)	492,324
Compensated absences	200,047	-	(7,264)	-	192,783	-	192,783
Net OPEB obligation	126,442	12,642	-	-	139,084	-	139,084
Net pension liability	1,278,506	890,962	-	-	2,169,468	-	2,169,468
Total	$ 42,802,750	$ 903,604	$ (2,000,140)	$ -	$ 41,706,214	$ (2,352,941)	$ 39,353,273

	2015						
	Total Balance 7/1/14	Additions	Reduction	Refunding	Total Balance 6/30/15	Less Current Portion	Equals Long Term Portion
Revenue bond 2003 series A	$ 17,580,000	$ -	$ -	$ (17,580,000)	$ -	$ -	$ -
Revenue bond 2003 series B	905,000	-	(905,000)	-	-	-	-
Revenue refunding bond 2012 series A	17,670,000	-	-	-	17,670,000	-	17,670,000
Revenue refunding bond 2012 series B	6,615,000	-	(1,255,000)	-	5,360,000	(1,275,000)	4,085,000
Revenue refunding bond 2014 series A	-	15,660,000	-	-	15,660,000	(375,000)	15,285,000
Total revenue bonds payable	42,770,000	15,660,000	(2,160,000)	(17,580,000)	38,690,000	(1,650,000)	37,040,000
Add unamortized premium	153,632	1,906,637	(350,422)	-	1,709,847	(192,077)	1,517,770
Subtotal	42,923,632	17,566,637	(2,510,422)	(17,580,000)	40,399,847	(1,842,077)	38,557,770
Obligations under capital leases	1,078,429	-	(280,521)	-	797,908	(150,798)	647,110
Compensated absences	196,301	3,746	-	-	200,047	-	200,047
Net OPEB obligation	103,442	23,000	-	-	126,442	-	126,442
Net pension liability	785,759	492,747	-	-	1,278,506	-	1,278,506
Total	$ 45,087,563	$ 18,086,130	$ (2,790,943)	$ (17,580,000)	$ 42,802,750	$ (1,992,875)	$ 40,809,875

The 2003, 2012, and 2014 Revenue Bonds were 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 of 1.25. Revenues for this purpose represent all rates, charges, rents and other income, including PFC revenues available for debt service. Operating expenses represent O&M (operation and maintenance), excluding depreciation. Certain other exclusions apply. City's Bond Counsel has determined that the effect of GASB 68 on pension expense is excludable from O&M and, therefore, not included in determining Net Revenues available for debt service. If minimum debt service coverage requirements are not met, the Fund must take timely corrective action. The Fund met the required debt coverage ratio for 2016 and 2015 with 1.59 and 1.48, respectively. The primary factor affecting the increase in the debt coverage ratio was due to the 2015 refinancing, which lowered the debt service principal and interest requirements. Even though there was a decrease in revenues during 2016, the reduction of debt service requirements caused an overall positive impact on the ratio.

12. REFUNDING

On December 17, 2014, the City issued revenue refunding bonds series 2014A in the amount of $15,660,000 with a variable interest rate ranging from 4.00% to 5.00%. The bond proceeds plus premium of $1,906,637 and other sources of $2,486,850 (including the release of Series 2003A debt service reserve fund) was used to:

- Currently refund the $17,580,000 revenue bonds, series 2003A issued for parking garage expansion, terminal access road infrastructure, elevated pedestrian walkway between the parking garage and the terminal, and terminal expansion, including passenger waiting areas, main terminal lobby and terminus for elected pedestrian walkway. The series 2003A revenue bond had interest rates ranging from 3.40% to 5.00% and the bond was maturing between July 1, 2015 and July 1, 2028. The series 2014A bond also paid the accrued interest of $434,466 for the series 2003A at the time of refunding.
- Fund the $1,423,844 debt service fund required for series 2014A bonds.
- Cover the $615,177 series 2014A debt issuance costs.

The proceeds of $20,053,487 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 16, 2015. The current refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Fund's financial statements.

As a result of the current refunding, the Fund reduced its total debt service cash flow requirements by $1.7 million through 2030, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $956,583 or 6.11% of the refunded 2003A bonds.

13. RESTRICTED NET POSITION

Restricted net position was comprised of the following at June 30:

	2016	2015
Restricted for debt service and capital projects (PFC)	$ 2,685,078	$ 1,955,129
Restricted for prepaid cash reserve (PFC)	487,792	486,776
Restricted for renewal and replacement reserve	216,247	215,764
Restricted for debt service reserve	3,782,158	3,739,379
Restricted for bond debt service reserve	2,881,487	2,558,285
Restricted for operations and maintenance reserve	3,294,755	3,287,966
Total	$ 13,347,517	$ 12,243,299

The restricted PFC cash above of $3,172,870 ($2,685,078 and $487,792) in addition to the PFC amount included in the debt service reserve above of $918,302 and $7,225 included in unrestricted cash, for a total of $4,098,397, is presented in the Schedule of Passenger Facility Charges Collected and Expended (other information).

14. RETIREMENT BENEFITS AND RESULTING NET PENSION LIABILITY

Defined Benefit Plan: All full-time employees of the Fund participate in the City of Burlington Employees' Retirement System (the Plan), a cost sharing, single employer defined benefit plan. The Fund follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, with respect to the Plan.

Plan Description: Substantially all employees of the Fund are members of the Plan and are classified as Class B members. Eligible employees must participate in the Plan. Effective July 1, 2015 the City required a 3.40% contribution of earnable compensations from AFSCME employees. For the year ended June 30, 2015 AFSCME contributions were 3%. All other employees contributed 3%. It is the current policy of the City of Burlington to fund the actuarially determined periodic contributions using the projected unit credit cost method. Gains (losses), as they occur, reduce (increase) the unfunded past service cost. The Fund's contributions were based on full time equivalents and wages. The City Council has the authority to amend the benefit terms of the Plan by enacting ordinances and sending them to the Mayor for approval.

At June 30, 2016, the Fund reported a net pension liability for its proportionate share of the City's net pension liability per the new GASB 68. The net pension liability was measured as of June 30, 2015. The Fund's proportion of the net pension liability was based on a projection of the Fund's payroll relative to the total payroll of the City. At June 30, 2016 and 2015, Fund's proportions were 3.1827 and 2.3751 percent, respectively. For more information on the City's plan, see the City of Burlington, VT financial statements.

Benefits Provided: Class B retirees who have attained the age of 55 or older and completed 7 or more years of creditable service (age and years of creditable service vary depending on agreements) are eligible for benefits based on average final earnable compensation (AFC) during either the highest 5 or 3 non-overlapping 12-months periods depending on hiring dates. For details on agreements and AFC, see the City of Burlington, VT financial statements.

Contributions: The Fund contributed $281,375 and $211,879 for the measurement years ended June 30, 2015 and 2014, respectively, the measurement date of the net pension liability used for the June 30, 2015 reporting period.

Summary of Significant Accounting Policies: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan was used as reported on the City of Burlington, VT Financial Statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Actuarial assumptions: The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	3.8 to 8.8 percent, including inflation
Investment rate of return	8 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 combined mortality tables for males and females, with full generational projection by scale BB.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the five year period ended June 30, 2012.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	30.80%	6.70%
Fixed income	31.50%	2.94%
Alternatives	23.30%	6.26%
Multi-strategy	14.40%	5.98%
Total	100.00%	

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 3.00%.

Discount Rate: The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the fiduciary net position was projected to be available to make all future benefit payments to the current plan members.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (7.00%) or one percentage-point higher (9.00%) than the current rate:

Fund's net pension liability as of:	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
June 30, 2016	$ 3,047,906	$ 2,169,468	$ 1,435,808
June 30, 2015	1,867,659	1,278,506	779,745

Deferred Inflows and Outflows of Resources: As a result of implementing GASB 68, the differences between projected and actual investment earnings, difference between actual and expected experience, and changes in proportional share of contributions related to pension was reported as deferred inflows of resources and will be amortized over the next several future fiscal years.

Amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense in future fiscal years as follows:

	Net deferred outflows (inflows) of resources:	
Amortization Year:	As of 6/30/2016	As of 6/30/2015
2016	$ -	$ 417,158
2017	635,345	135,784
2018	365,342	135,784
2019	191,479	(38,082)
2020	86,667	-
	$ 1,278,833	$ 650,644

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued City of Burlington financial report. No separate stand-alone report is issued for the pension system. Further disclosures about the Plan are included in the City of Burlington's financial statements.

15. OTHER POST-EMPLOYMENT BENEFITS (OTHER THAN PENSION)

The City follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) for reporting other post-employment benefits (OPEB) including healthcare, life insurance, and other non-pension benefits offered to retirees. The City allows certain retired employees to purchase health insurance through the City at the City's group rates, which is recognized as implicit subsidy. GASB 45 addresses how the City should account for and report its costs related to OPEB, such as the City's implicit subsidy of retiree health insurance and the City's direct subsidy of retiree health insurance. GASB 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 Fund's portion of the OPEB liability as presented in the long-term debt section.

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. DEFERRED COMPENSATION PLAN

The 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.

17. 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, net, during 2016 and 2015 was $3,984 and $21,979, respectively.

The City Clerk/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, 2016 and 2015, administrative and risk management fees paid to the City General Fund were $353,530 and $422,055, respectively.

The Fund contracted with other City departments to provide services such as security from the Police Department at a fee of $1,014,000 and $1,062,827 for fiscal years 2016 and 2015, respectively. The Airport also contracted with the Traffic Fund to operate its parking lot and parking garage at a fee of $50,000 and $50,000 for fiscal years 2016 and 2015, respectively.

18. LEASES

The Fund 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 years ended June 30, 2016 and 2015 was approximately $7,653,900 and $7,751,800, respectively. Future lease revenue estimated to be received in each of the next five fiscal years under these agreements are as follows:

2017	$ 7,730,000
2018	7,810,000
2019	7,885,000
2020	7,965,000
2021	8,040,000

19. <u>COMMITMENTS AND CONTINGENCIES</u>

The following include outstanding legal issues:

Mansfield Heliflight, Inc. v. City of Burlington, Vermont

On or around July 29, 2014, Mansfield Heliflight, Inc. ("Mansfield") filed a Part 16 Complaint with the FAA against the City, alleging the City has prevented Mansfield from becoming a Fixed-Base Operator ("FBO") at BTV, and that its efforts in this regard effectively granted an exclusive right to Heritage Aviation, Inc. The Complaint alleges that (1) the City is in violation of Grant Assurance No. 23, prohibiting the grant of an exclusive right to any person to conduct aeronautical activities at BTV; (2) the City is in violation of Grant Assurance No. 2,2 prohibiting unjust discrimination; and (3) predatory conduct and illegal restraint of trade by the City in violation of the Sherman Act and Grant Assurance No. 1, which prohibits a sponsor's violation of federal law. The City filed a Consolidated Answer, Motion for Summary Judgment and Motion to Dismiss on October 2, 2014, denying many of the factual allegations in Mansfield's Complaint. The City has moved to dismiss Count 3 on the grounds FAA lacks jurisdiction over the alleged Sherman Act violation, and for summary judgment on Counts 1 and 2 on the grounds that the undisputed facts do not demonstrate a violation of the City's Grant Assurances. The City believes that the FBO's claims are without merit. The Airport has just selected Mansfield Heliflight, Inc. to use and rehab the South Hangar. This selection was the result of a competitive bidding RFP process. BTV believes this will help resolve Mansfield Heliflight's Part 16 complaint.

South Burlington Assessments

The City of Burlington and the City of South Burlington settled the property tax dispute regarding Burlington International Airport in August 2016. Both City Councils approved a property tax settlement agreement that draws the dispute to a close. The settlement establishes a clear methodology for current properties and future assessments. The settlement resolves the dispute that began when the City appealed the City of South Burlington's assessment of all the Airport-related properties owned by the City as of April 1, 2012. Beginning in tax year 2015-2016, the total assessed value of Airport land and buildings is approximately 52 million. This is a reduction from the previous assessment of $77 million. Based on the Superior Court's decision, the City will pay property taxes on some Airport land and improvements and a payment in lieu of taxes (PILOT) on other Airport land. This agreement will cover a 10 year period through 2027-28.

The City does not believe that any of the above-referenced matters will have a material, adverse effect upon the financial position of the Fund.

<u>Grants</u> - Amounts received or receivable from grantor agencies, including possible grant assurance violations at the Fund, 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 Fund expects such amounts, if any, to be immaterial.

Construction Commitments – The Airport has a number of ongoing Airport Improvement Program (AIP) projects for construction and land acquisition, as well as several Passenger Facility Program (PFC) projects for terminal improvements that are funded from restricted assets. AIP projects include taxiway reconstruction, storm-water treatment projects, building demolition related to previously acquired property and land acquisition. The PFC projects include energy projects, cargo apron reconstruction, escalator and baggage carousel projects and related work.

20. RISK MANAGEMENT

A. *Insurance*

The 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 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 $50,000. Starting fiscal year 2016, the City has a large-deductible worker's compensation plan with Travelers Indemnity Company. Prior to fiscal year 2016, the City was self-insured for worker's compensation.

The Fund 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

For 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:

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 costs associated with these self-insurance plans are budgeted in the City's General Fund and allocated to the Fund 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. The Fund paid $14,904 in unemployment claims in 2016, while there were no claims in 2015 .

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.

21. MAJOR CUSTOMERS

A significant portion of the Fund's earnings and revenues are directly or indirectly attributed to the activity of a few major airlines.

The Fund's earnings and revenues could be materially and adversely affected should these major airlines discontinue operations and should the Fund be unable to replace the airline with similar activity. The level of operations is determined based upon the relative share of enplaned passengers. The following represents major concentrations and their respective airline passenger shares:

	2016	2015
United	32%	30%
American	27%	28%
Delta	22%	23%

22. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF BEGINNING NET POSITION

For fiscal year 2015, the Fund has adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB 68 establishes accounting and financial reporting standards that significantly impacted the Fund's basic financial statements by recognizing as a liability and expense, the Airport's applicable portion of the City of Burlington Employee's Retirement System's Net Pension Liability.

The beginning net position of the Fund was restated for July 1, 2014 Net Pension Liability of $785,759, less contributions made during fiscal year 2014 of $211,879, for a net reduction to beginning net position of $573,880. Fiscal year 2014 and prior periods have not been restated for GASB 68 due to impractical nature of allocating annual activity and lack of information for measurement dates June 30, 2012 and prior; as this is a new standard and beginning net position restatement for July 1, 2014 does not recognize beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions in accordance with GASB 71.

23. IMPLEMENTATION OF NEW GASB STANDARDS

The Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the Fund beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact on the Fund's basic financial statements by increasing the net OPEB liability and, as a result, decreasing unrestricted net position.

CITY OF BURLINGTON, VERMONT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016
(Unaudited)

Burlington Employee's Retirement System

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2016	3.1827%	$2,169,468	$ 1,664,402	130.35%	70%
June 30, 2015	2.3751%	$1,278,506	$ 1,642,817	77.82%	75%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

CITY OF BURLINGTON, VERMONT

SCHEDULE OF PENSION CONTRIBUTIONS

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016
(Unaudited)

Burlington Employee's Retirement System					
Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2016	$ 281,375	$ (281,375)	$ -	$ 1,664,402	17%
June 30, 2015	$ 211,879	$ (211,879)	$ -	$ 1,642,817	13%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

MELANSON HEATH
ACCOUNTANTS • AUDITORS
40 years

102 Perimeter Road
Nashua, NH 03063
(603)882-1111
melansonheath.com

Additional Offices:
Andover, MA
Greenfield, MA
Manchester, NH
Ellsworth, ME

REPORT ON COMPLIANCE WITH REQUIREMENTS OF
THE PASSENGER FACILITY CHARGE PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE PASSENGER FACILITY CHARGE
AUDIT GUIDE FOR PUBLIC AGENCIES

Independent Auditors' Report

To the Honorable Mayor and City Council
City of Burlington, Vermont

Report on Compliance for the Passenger Facility Charge Program

We have audited the Burlington International Airport, an enterprise fund of the City of Burlington, Vermont (the Fund), for compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies (the Guide) issued by the Federal Aviation Administration, applicable to its passenger facility charge program* that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2016. Our responsibility is to express an opinion the Fund's compliance based on our audit procedures.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Passenger Facility Charges Program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Fund's passenger facility charge program based on our audit of the types of compliance requirements referred to above.

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 the Guide.

Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charges program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the Fund's Passenger Facility Charges Program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on Passenger Facility Charge Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Passenger Facility Charge program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the Passenger Facility Charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Passenger Facility Charge program and to test and report on internal control over compliance in accordance with the Guide, 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 the Fund's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Revenues and Expenditures of Passenger Facility Charges

We have audited the financial statements of the Burlington International Airport, the enterprise fund of the City of Burlington, Vermont (the Fund) as of and for the year ended June 30, 2016, and have issued our report thereon dated December 21, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying schedule of revenues and expenditures of passenger facility charges is presented for purposes of additional analysis as required by the *Passenger Facility Charge Audit Guide for Public Agencies*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of passenger facility charges is fairly stated in all material respects in relation to the basic financial statements as a whole.

Melanson Heath

December 21, 2016

CITY OF BURLINGTON, VERMONT
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
FOR THE YEAR ENDED JUNE 30, 2016

Cash balance - July 1, 2015	$ 3,588,538
Receipts	
Passenger facility charges collected	2,314,389
Interest earnings	4,974
Total receipts	2,319,363
Disbursements	
Project No. 96-01-I-00-BTV	637,648
Project No. 00-03-C-00-BTV	53,978
Project No. 10-04-C-00-BTV	395,490
Project No. 11-05-C-00-BTV	233,537
Project No. 13-06-C-00-BTV	488,851
Total disbursements	1,809,504
Increase in cash balance	509,859
Cash balance - June 30, 2016	$ 4,098,397

See Note 13 for reconciliation of above cash to the restricted accounts presented in the financial statements

BURLINGTON INTERNATIONAL AIRPORT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

I. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: unmodified

Internal Control over Financial Reporting:

- Material weaknesses identified? ____ Yes _✓_ No

- Significant deficiencies identified that are not considered to be material weaknesses? ____ Yes _✓_ None reported

Noncompliance material to financial statements noted? ____ Yes _✓_ No

Passenger Facility Charges Program

Internal Control over the Programs:

- Material weaknesses identified? ____ Yes _✓_ No

- Significant deficiencies identified that are not considered to be material weaknesses? ____ Yes _✓_ None reported

Type of auditors' report issued on compliance for the Programs: unmodified

- Any audit findings disclosed that are required to be reported in accordance with Passenger Facility Charges Audit Guide for Public Agencies? ____ Yes _✓_ No

II. Financial Statement Findings

None reported.

III. Findings and Questioned Costs for the Program

None reported.