NIAGARA FRONTIER TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

FINANCIAL STATEMENTS

MARCH 31, 2017 and 2016

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

March 31, 2017 and 2016

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Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, NY 14202
p: 716.856.3300 | f: 716.856.2524 | www.LumsdenCPA.com

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Niagara Frontier Transportation Authority

We have audited the accompanying balance sheets of Niagara Frontier Transportation Authority (the Authority) (a component unit of the State of New York), a business-type activity, as of March 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of March 31, 2017 and 2016, and the changes in its financial position and its cash flows 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 (MD&A) on pages i through viii (preceding the financial statements), and other required supplementary information, as listed in the table of contents, be presented to supplement the 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 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Additional Information
The additional information on pages 40 and 41 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2017 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Authority's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

June 22, 2017

Niagara Frontier Transportation Authority
Serving Buffalo Niagara

181 Ellicott Street
Buffalo, New York 14203
716-855-7300
Fax: 716-855-7657
TDD: 855-7650
www.nfta.com

MANAGEMENT'S CERTIFICATION OF THE FINANCIAL STATEMENTS

Management certifies that, based on our knowledge, the information provided herein is accurate, correct and does not contain any untrue statement of material fact; does not omit any material fact, which, if omitted, would cause the financial statements to be misleading in light of the circumstances under which such statements are made; and fairly presents in all material respects the financial condition and results of operations and cash flows of the Authority as of, and for, the period presented in the financial statements.

NIAGARA FRONTIER TRANSPORTATION AUTHORITY

Kimberley A. Minkel
Executive Director

John T. Cox
Chief Financial Officer

Patrick J. Dalton
Director of Internal Audit and
Corporate Compliance

June 22, 2017

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Niagara Frontier Transportation Authority's (the Authority) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenses of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the Authority's internal control over financial reporting as of March 31, 2017, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Based on that assessment, management concluded that, as of March 31, 2017, the Authority's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework*.

NIAGARA FRONTIER TRANSPORTATION AUTHORITY

Kimberley A. Minkel Executive Director	John T. Cox Chief Financial Officer	Patrick J. Dalton Director of Internal Audit and Corporate Compliance

June 22, 2017

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

Management's Discussion and Analysis

For the Years Ended March 31, 2017, 2016 and 2015
(Unaudited)

This management's discussion and analysis (MD&A) of the Niagara Frontier Transportation Authority (the Authority) provides an introduction and overview to the Authority's financial activities as of and for the years ended March 31, 2017, 2016 and 2015, which should be read in conjunction with the Authority's financial statements and notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. It begins by presenting and explaining the financial statements. These statements have been prepared according to accounting principles generally accepted in the United States of America (GAAP). Revenues and expenses are recorded using the accrual basis of accounting, meaning that they are recorded and recognized by the Authority as earned/incurred, regardless of when cash is received or paid.

The financial statements of the Authority encompass the activity of the NFTA, which includes aviation operations and property management, and Niagara Frontier Transit Metro System, Inc. (Metro), a blended component unit of the Authority, which primarily provides surface transportation.

Effective April 1, 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the Authority to record its net pension liability and deferred outflows of resources for certain pensions provided to Authority employees. The cumulative effect on the 2016 statements is a decrease in beginning of year net position totaling $1,511,000.

Effective April 1, 2016, the Authority adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). The statement extends the approach to accounting and financial reporting established in GASB 68 to all pensions. The cumulative effect on the 2017 statements is a decrease in beginning of year net position totaling $24.7 million as detailed in Note 3 to the financial statements.

The **Balance Sheets** present information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether Authority's financial position is strengthening or weakening.

The **Statements of Revenues, Expenses, and Changes in Net Position** show the results of the Authority's operations during the year and reflect both operating and non-operating activities. Changes in net position reflect the operational impact of the current year's activities on the financial position of the Authority.

The **Statements of Cash Flows** provide an analysis of the sources and uses of cash. The cash flow statements show net cash provided or used in operating, capital and related financing, and investing activities.

The notes to the financial statements include additional information which provides a further understanding of the financial statements.

FINANCIAL HIGHLIGHTS

Summarized Balance Sheets

(In thousands)	March 31		
	2017	2016	2015
Current assets	$ 88,518	$ 82,350	$ 69,167
Restricted assets	55,493	53,086	45,950
Capital assets, net	604,208	610,676	624,293
Deferred outflows of resources from pensions	27,005	7,390	-
Total assets and deferred outflows of resources	$ 775,224	$ 753,502	$ 739,410
Current liabilities	$ 51,344	$ 52,307	$ 43,602
Noncurrent liabilities	370,143	317,978	297,390
Deferred inflows of resources from pensions	3,139	38	-
Total liabilities and deferred inflows of resources	424,626	370,323	340,992
Net position:			
Net investment in capital assets	466,688	466,460	484,013
Restricted	47,866	46,172	39,731
Unrestricted	(163,956)	(129,453)	(125,326)
Total net position	350,598	383,179	398,418
Total liabilities and net position	$ 775,224	$ 753,502	$ 739,410

The changes in total net position over time serve as a useful indicator of the Authority's financial position. Net investment in capital assets represents the Authority's net capital assets, offset by any payables or debt outstanding used to finance the capital asset purchases. Restricted net assets consist primarily of cash and investments restricted in accordance with bonding requirements or assets whose use is limited to specific purposes in accordance with various agreements. Negative unrestricted net position of $164.0 million, $129.5 million, $125.3 million at March 31, 2017, 2016 and 2015 results primarily from the accrual of postemployment benefits other than pensions. As a result of the Authority's activities, March 31, 2017 net position decreased $32.6 million from March 31, 2016 ($15.2 million from 2015).

Current assets increased $6.1 million from March 31, 2016 to March 31, 2017 primarily due to an increase in unrestricted cash and investments, partially offset by a decrease in governmental receivables. Deferred outflows of resources increased $19.6 million primarily due to changes in assumptions and differences between the projected and actual investment earnings related to certain pension plans.

Current assets increased $13.2 million from March 31, 2015 to March 31, 2016 primarily due to an increase in governmental receivables resulting from a delay in Federal and State preventative maintenance proceeds, partially offset by a decrease in unrestricted cash. Deferred outflows of resources resulting from the implementation of GASB Statements No. 68 and No. 71 total $7.4 million at March 31, 2016 and consist primarily of pension payments made subsequent to the liability measurement date.

The Authority entered into a $10.5 million capital lease for new buses in fiscal 2017. This new debt, offset by current year principal payments and combined with increases in other post-employment benefits of $13.5 million and net pension liability of $41.8 million, resulted in an increase in noncurrent liabilities of $52.2 million at March 31, 2017 compared to March 31, 2016.

Bus capital expenditures included in accounts payable at March 31, 2016 resulted in an increase in current liabilities of $8.7 million compared to March 31, 2015. Noncurrent liabilities increased $20.6 million as increases in post-employment benefits of $17.4 million, estimated self-insured claims of $4.2 million, and net pension liability of $4.2 related to the implementation of GASB 68, were partially offset by debt decreases totaling $7.0 million.

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

Management's Discussion and Analysis

For the Years Ended March 31, 2017, 2016 and 2015
(Unaudited)

Summarized Statements of Revenues, Expenses and Changes in Net Position

(in thousands)	Years ended March 31		
	2017	2016	2015
Operating revenues:			
Fares	$ 36,866	$ 37,506	$ 37,398
Concessions and commissions	28,270	27,813	28,509
Rental income	17,848	17,052	16,412
Airport fees and services	17,190	16,354	17,643
Other operating revenues	5,689	4,684	6,564
Total operating revenues	105,863	103,409	106,526
Operating expenses:			
Salaries and employee benefits	137,610	135,823	133,950
Other postemployment benefits	13,545	17,415	12,988
Depreciation	51,778	50,051	54,510
Maintenance and repairs	20,374	19,347	19,884
Transit fuel and power	3,805	5,137	6,764
Utilities	4,454	4,254	5,285
Insurance and injuries	3,754	3,725	4,388
Other operating expenses	18,249	15,380	14,547
Total operating expenses	253,569	251,132	252,316
Operating loss	(147,706)	(147,723)	(145,790)
Non-operating revenues, net	120,010	107,105	99,928
Change in net position before capital contributions and special item	(27,696)	(40,618)	(45,862)
Capital contributions	19,820	26,890	17,397
Special item - property disposition	-	-	(12,981)
Change in net position	(7,876)	(13,728)	(41,446)
Net position - beginning of year	383,179	398,418	439,864
Cumulative effect of restatement	(24,705)	(1,511)	-
Net position - beginning, as restated	358,474	396,907	439,864
Net position - end of year	$ 350,598	$ 383,179	$ 398,418

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
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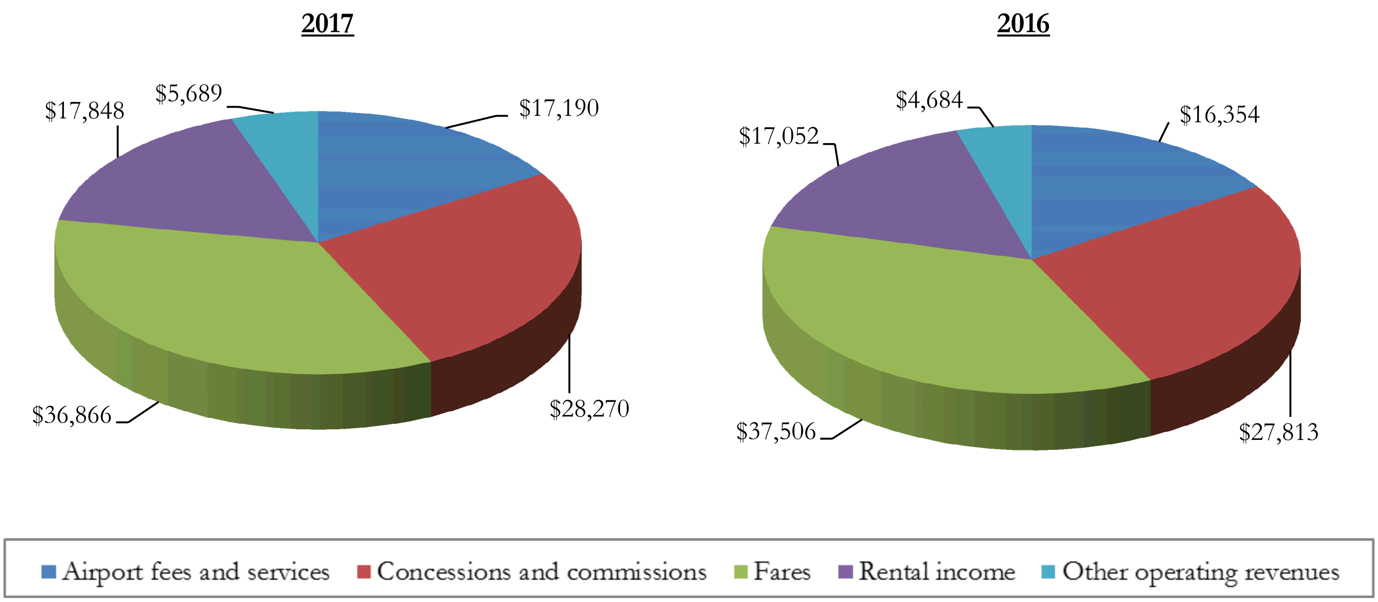
Management's Discussion and Analysis

For the Years Ended March 31, 2017, 2016 and 2015
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

The charts below summarize operating revenues by source.



Operating revenues increased $2.5 million, or 2.4%, from 2016 to 2017. Fares decreased $0.6 million, as ridership was down from 2016 levels and individual passenger fares were unchanged. Concessions and commissions in 2017 were $0.5 million higher than 2016, primarily due to an increase in auto rental fees at Buffalo Niagara International Airport (BNIA). Airport fees and services in 2017 were $0.8 million higher than 2016 as increased BNIA direct landing area expenses resulted in higher compensatory airline billings. Other operating revenues were $1.0 million higher than 2016 primarily due to higher Metro advertising revenue.

Operating revenues decreased $3.1 million, or 2.9%, from 2015 to 2016. Fare revenue remained constant as individual passenger fares were unchanged from year to year. Concessions and commissions in 2016 were $0.7 million lower than 2015 due to decreased BNIA parking revenue attributable to the weak Canadian dollar, as approximately 40% of BNIA passenger traffic originates from the Canadian market. Airport fees and services in 2016 were $1.3 million lower than 2015 as decreased BNIA direct landing area expenses resulted in lower compensatory airline billings as well as a capped reimbursement for NFIA net deficit (BNIA signatory airlines previously reimbursed NFIA for 50% of NFIA's net deficit). Other operating revenues were $1.9 million lower than 2015 due to the transfer of property to Erie Canal Harbor Development Corporation in 2015. The property included a 1,000 slip boat marina, which resulted in a loss of $1.3 million in boat harbor fees in 2016.

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Management's Discussion and Analysis

For the Years Ended March 31, 2017, 2016 and 2015
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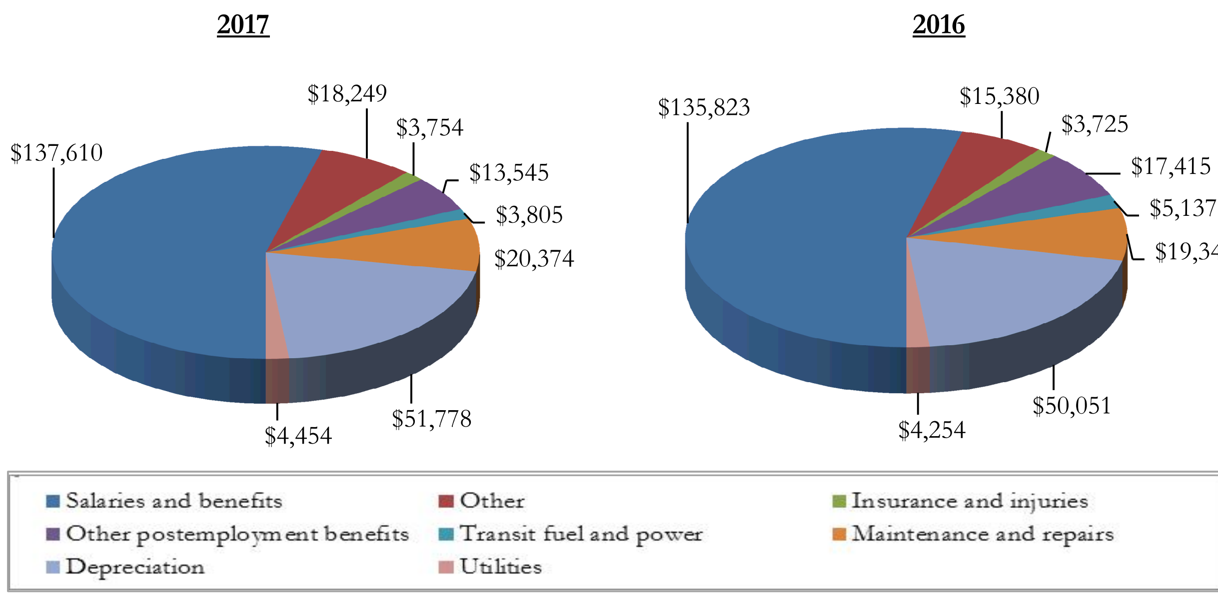
The charts below summarize operating expenses by category.



Operating expenses increased 1.0%, from $251.1 million to $253.6 million from 2016 to 2017. Salaries and employee benefits increased $1.8 million, or 1.3%, due to higher health insurance, workers' compensation and pension costs. Changes in actuarial assumptions and the transition to self-insured healthcare resulted in an actuarially calculated decrease in other postemployment benefits of $3.9 million from 2016. Depreciation expense, which varies from year to year based on the timing of asset purchases and estimated useful lives, increased by $1.7 million from 2016.

Operating expenses decreased from $252.3 million to $251.1 million from 2015 to 2016. Salaries and employee benefits increased $1.9 million due to higher health insurance, workers' compensation and Metro overtime costs partially offset by reduction of salaries and benefits due to the termination of the Authority's operating of the boat marina. Other postemployment benefits increased $4.4 million from 2015 relating to the actuarially calculated postemployment health insurance costs. Depreciation expense, which varies from year to year based on the timing of asset purchases and estimated useful lives, decreased by $4.5 million from 2015. Transit fuel power costs declined $1.6 million due to lower diesel, gasoline and rail traction costs. Utilities costs decreased $1.0 million due to lower electric and gas rates.

Net non-operating revenues for 2017 increased $12.9 million compared to 2016, from $107.1 million to $120.0 million, primarily due to a $4.0 million increase in operating assistance, a decrease in airport noise abatement costs of $2.3 million, and realized gain on the sale of property totaling $3.4 million.

Net non-operating revenues for 2016 increased $7.2 million compared to 2015, from $99.9 million to $107.1 million, primarily due to a $1.3 million increase in operating assistance and decreases in interest and airport noise abatement totaling $3.0 million.

Capital contributions decreased from $26.9 million in 2016 to $19.8 million in 2017 primarily due to the timing of capital projects and revenue vehicle purchases.

Capital contributions increased from $17.4 million in 2015 to $26.9 million in 2016 due to higher grant funds as fiscal 2016 incurred higher capital project expenses. Additionally, fiscal 2016 included costs for the Metro CNG fueling station and BNIA ARFF facility.

In fiscal 2015, the Authority transferred approximately 350 acres of property along the Lake Erie shoreline in the City of Buffalo to the Erie Canal Harbor Development Corporation (ECHDC). As a result, capitalized acquisition costs with a net book value of $13.0 million were written off in fiscal 2015 and recorded as a special item in the statements of revenues, expenses and changes in net position.

CAPITAL ASSETS

Net capital assets total $604.2 million at March 31, 2017, representing a decrease of 1.1% from March 31, 2016, as depreciation and dispositions exceeded investment in capital. Capital asset additions totaling $45.6 million include $13.6 million for twenty-four compressed natural gas (CNG) buses, $4.9 million for the ongoing mid-life railcar rebuild project, and $7.0 million for the BNIA Airport Rescue and Fire Fighting (ARFF) facility. Depreciation and asset disposals exceeded capital asset additions by $6.5 million in 2017.

Net capital assets total $610.7 million at March 31, 2016, representing a decrease of 2.2% from March 31, 2015, as depreciation and dispositions outpaced annual investment in capital. Capital asset additions totaling $36.4 million include $2.7 million for the ARFF facility, $1.1 million in BNIA terminal hold room seating, $7.9 million for twenty CNG buses, $5.8 million for the new CNG fueling station and $2.7 million for the ongoing mid-life railcar rebuild project. Depreciation and asset disposals exceeded capital asset additions by $13.6 million in 2016.

DEBT ADMINSTRATION

The Authority had $133.6 million in long-term debt at March 31, 2017. This $1.1 million decrease from 2016 results from a new bus capital lease of $10.4 million, offset by debt service payments of $11.6 million. The Authority had $134.7 million in long-term debt outstanding debt at March 31, 2016. This represents a $5.6 million, or 4.0%, decrease from 2015 due to continued debt service payments.

FACTORS IMPACTING THE AUTHORITY'S FUTURE

Surface Transportation

Approximately 26% of Metro's revenues are derived from fare collection and advertising, while 74% are from outside operating assistance. New York State is the Authority's largest investor providing 49% of operating assistance while 33% comes from local sources and 18% from the federal government. Any changes in these funding sources can have a significant impact on Authority operations.

As part of Metro's Blueprint for the Future, in addition to stabilizing government assistance, our strategic plans concentrate on revenue generation, cost control, increasing organizational liquidity, technological improvements, operational changes such as implementation of a new fare box collection system, providing more flexible fare structures, improving service standards, continuing to engage the public with the Citizens Advisory Committee and developing our workforce.

The property surrounding the Metro Rail system has seen significant office, retail, housing and entertainment development in the past few years. The 120 acre Buffalo Niagara Medical Campus (BNMC), a consortium of the region's top health care, education, and research institutions, is located adjacent to the Allen-Medical Campus station. More than 12,000 people currently work, volunteer or study every day at the BNMC and this number will increase to 17,500 in 2017 when Women & Children's Hospital of Buffalo completes its move to the BNMC and the University at Buffalo School of Medicine opens in a new building with a reconstructed Metro Rail station inside the first floor. As a result, ridership on the light rail system is projected to grow.

Additionally, the Authority has accepted the Niagara Falls Boulevard Light Rail alternative recommended by an alternatives analysis study for the Amherst-Buffalo Corridor. Twenty percent of all regional jobs and more than ten percent of all regional residents live within the Amherst-Buffalo Corridor. The proposed project would extend the current light rail system 6.4 miles, from its present end point in Buffalo through the University at Buffalo's North Campus in Amherst, which is projected to more than double ridership, spur an estimated $1.7 billion in new development, increase existing property values by $310 million, and create billions in direct, indirect, and induced economic impact. New York State has invested $5 million to complete the environmental process for the project. The order of magnitude estimate of project construction is $1.2 billion, with 50% of project costs planned to come from a federal funding program and the remainder from a mix of funding and financing sources.

Aviation

Together, BNIA and NFIA served approximately 5 million passengers in the fiscal year as the only commercial service airports in Erie and Niagara counties. Additionally, the airports are a convenient and less costly option for nearby Canadian travelers. As approximately 40% of BNIA passenger traffic originates from Canada, fluctuations in the exchange rate of the Canadian dollar have an impact on enplanements.

In 2016, an overall aviation strategic plan was completed which identified critical issues relating to the two airports and established goals to enhance air cargo development, enhance and maintain air service to Canadian travelers, maintain the quality of overall customer service, and improve the financial sustainability of BNIA and NFIA.

A two-year, $65 million passenger terminal and baggage claim expansion project at BNIA is scheduled to begin in the fall of 2017. The project will improve overall airport security, expand and modernize the baggage claim area, improve passenger flow to and from the international boarding areas, expand the terminal for additional concessions and amenities, and add new curb space at both ends of the BNIA terminal. Passenger Facility Charges are funding program design and are the planned source for project construction.

CONTACT FOR AUTHORITY'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the finances of the Authority for interested parties. Questions concerning any information within this report or requests for additional information should be addressed to John T. Cox, Chief Financial Officer, 181 Ellicott Street, Buffalo, New York 14203.

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

Balance Sheets (In thousands)

March 31,	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 50,154	$ 37,541
Investments	12,500	-
Accounts receivable, net of allowance for doubtful accounts of $926	7,212	3,908
Grants receivable	12,758	35,105
Materials and supplies inventory	4,980	4,735
Prepaid expenses and other	914	1,061
	88,518	82,350
Restricted assets:		
Cash and cash equivalents	37,775	34,625
Investments	17,718	18,461
	55,493	53,086
Capital assets, net (Note 5)	604,208	610,676
Total assets	748,219	746,112
Deferred outflows of resources:		
Deferred outflows of resources from pensions	27,005	7,390
Total assets and deferred outflows of resources	$ 775,224	$ 753,502
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 11,321	$ 9,636
Accounts payable and accrued expenses	30,198	34,192
Other current liabilities	9,825	8,479
	51,344	52,307
Noncurrent liabilities:		
Long-term debt	122,254	125,089
Other postemployment benefits	151,284	137,739
Estimated liability for self-insured claims	42,524	40,032
Net pension liability	42,743	986
Other noncurrent liabilities	11,338	14,132
	370,143	317,978
Total liabilities	421,487	370,285
Deferred inflows of resources:		
Deferred inflows of resources from pensions	3,139	38
Net position		
Net investment in capital assets	466,688	466,460
Restricted	47,866	46,172
Unrestricted	(163,956)	(129,453)
Total net position	350,598	383,179
Total liabilities, deferred inflows of resources, and net position	$ 775,224	$ 753,502

See accompanying notes.

Statements of Revenues, Expenses and Changes in Net Position (In thousands)

For the years ended March 31,	2017	2016
Operating revenues:		
Fares	$ 36,866	$ 37,506
Concessions and commissions	28,270	27,813
Rental income	17,848	17,052
Airport fees and services	17,190	16,354
Other operating revenues	5,689	4,684
Total operating revenues	105,863	103,409
Operating expenses:		
Salaries and employee benefits	137,610	135,823
Other postemployment benefits	13,545	17,415
Depreciation	51,778	50,051
Maintenance and repairs	20,374	19,347
Transit fuel and power	3,805	5,137
Utilities	4,454	4,254
Insurance and injuries	3,754	3,725
Other	18,249	15,380
Total operating expenses	253,569	251,132
Operating loss	(147,706)	(147,723)
Non-operating revenues (expenses):		
Government assistance	111,119	107,147
Passenger facility charges	9,271	9,181
Change in fair value of swap agreements	1,701	576
Interest expense, net	(4,549)	(4,726)
Airport noise abatement	(489)	(2,819)
Other non-operating revenues (expenses), net	2,957	(2,254)
Total non-operating net revenues	120,010	107,105
Change in net position before capital contributions	(27,696)	(40,618)
Capital contributions	19,820	26,890
Change in net position	(7,876)	(13,728)
Net position - beginning of year	383,179	396,907
Cumulative effect of restatement (Note 3)	(24,705)	-
Net position - beginning, as restated	358,474	396,907
Net position - end of year	$ 350,598	$ 383,179

See accompanying notes.

Statements of Cash Flows (In thousands)

For the years ended March 31,	2017	2016
Operating activities:		
Cash collected from customers	$ 103,193	$ 106,003
Cash paid for employee wages and benefits	(137,331)	(139,123)
Cash paid to vendors and suppliers	(53,460)	(37,964)
Cash paid for insurance and injuries	(1,262)	483
Net operating activities	(88,860)	(70,601)
Non-capital financing activities:		
Government assistance	111,119	107,147
Capital and related financing activities:		
Repayments of long-term debt	(11,628)	(9,545)
Proceeds from issuance of long-term debt	10,478	3,990
Other liabilities	322	241
Interest paid	(4,725)	(4,852)
Mortgage recording tax, net	390	454
Capital grants and contributions	42,167	3,201
Additions to capital assets	(45,723)	(36,401)
Construction retainages, net	413	310
Proceeds from sale of capital assets	3,703	70
Passenger facility charges	9,271	9,181
Airport noise abatement	(489)	(2,819)
Other	906	(2,274)
Net capital and related financing activities	5,085	(38,444)
Investing activities:		
Purchase of investments, net	(11,757)	-
Interest income	176	126
Net investing activities	(11,581)	126
Net change in cash and cash equivalents	15,763	(1,772)
Cash and cash equivalents, beginning of year	72,166	73,938
Cash and cash equivalents, end of year	$ 87,929	$ 72,166
Reconciliation to Balance Sheet		
Cash and cash equivalents:		
Unrestricted	$ 50,154	$ 37,541
Restricted	37,775	34,625
Total cash and cash equivalents	$ 87,929	$ 72,166
Reconciliation of operating loss to net operating activities:		
Operating loss	$ (147,706)	$ (147,723)
Adjustments to reconcile operating loss to net operating activities:		
Depreciation	51,778	50,051
Net pension activity	538	(4,687)
Other postemployment benefits, net	13,545	17,415
Changes in assets and liabilities:		
Receivables	(3,304)	1,785
Materials and supplies inventory	(245)	(194)
Prepaid expenses and other	147	(76)
Accounts payable and accrued expenses	(5,646)	5,422
Other current liabilities	634	811
Estimated liability for self-insured claims	2,492	4,208
Other noncurrent liabilities	(1,093)	2,387
Net operating activities	$ (88,860)	$ (70,601)

See accompanying notes.

(1) Financial Reporting Entity

The Niagara Frontier Transportation Authority (the Authority) was created by an Act of the New York State Legislature in 1967 to promote the development and improvement of transportation and related services within the Niagara Frontier transportation district. As a multi-modal transportation authority, the Authority operates a number of transportation related business centers including aviation, surface transportation and property management. The Authority is included in the financial statements of the State of New York (the State) as an enterprise fund.

The Niagara Frontier Transit Metro System, Inc. (Metro) was created in 1974 to provide mass transportation services to the Niagara Frontier. Although Metro is a separate legal entity, the Authority maintains financial and governance responsibility over its operations. Based on its financial and governance responsibility for Metro, the Authority reports Metro as a blended component unit.

The Authority, including Metro, is governed by a 13 member Board of Commissioners (the Board) appointed by the Governor of the State. Of the 13 members, one member is appointed upon the written recommendation of the Erie County Executive and one is appointed upon the written recommendation of the Erie County Legislature. All appointments are with the consent of the New York State Senate. The Board governs and sets policy for the Authority. The Executive Director, subject to policy direction and delegation from the Board, is responsible for all activities of the Authority.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Measurement Focus

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Authority reports as a special purpose government engaged in business-type activities, using the economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been satisfied.

The Authority's policy for defining operating activities in the statements of revenues, expenses and changes in net position are those that generally result from exchange transactions such as payments received for services and payments made to purchase goods and services. Certain other transactions are reported as non-operating activities.

Authority Operations

The Authority operates three strategic business centers within NFTA and Metro:

NFTA Operations

Aviation

The Authority operates the Buffalo Niagara International Airport (BNIA) and the Niagara Falls International Airport (NFIA). BNIA is Western New York's primary passenger and cargo airport, while NFIA continues to serve as a general aviation airport with an emerging scheduled charter business. NFIA, shared with a military base, also serves as the Federal Aviation Administration (FAA) reliever airport for BNIA.

Property Management

The property management department manages real estate owned by the Authority, including certain waterfront property, rail rights of way, and non-public transportation assets such as industrial warehouse distribution and associated office space for lease.

Metro Operations

Surface Transportation

Metro operates the surface transportation business unit responsible for all ground-based transportation services provided by the Authority. Such services include public fixed-route bus and rail routes, paratransit, and other non-traditional transit service, and intracity bus terminals in Buffalo and Niagara Falls.

Metro also provides a light rail rapid transit (LRRT) system between downtown Buffalo and the State University of New York at Buffalo and a seasonal/tourist-oriented service operating replica trolley vehicles over a fixed loop route in the City of Niagara Falls.

The Metropolitan Transportation Center, located in downtown Buffalo, serves as a bus terminal for Buffalo and its immediate suburbs and contains the offices for the Authority. The Niagara Falls Transit Center and the Portage Road Transit Center in Niagara Falls serve as the bus terminals for Niagara County.

The majority of Metro operations employees are members of the Amalgamated Transit Union Local 1342 (ATU). Five other labor unions represent a small percentage of remaining employees. Management is currently renegotiating the ATU contract which expired March 31, 2009 and expects settlement without disruption to operations.

(b) Cash and Cash Equivalents

Cash and cash equivalents principally include cash on hand, money market funds, and certificates of deposit with original maturities less than three months.

(c) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on outstanding balances and consist primarily of amounts due from services related to the Authority's operations and advertising. Management provides for probable uncollectible amounts based on collection history and aging of accounts. Balances outstanding after reasonable collection efforts are written off through a charge to an allowance for bad debts and a credit to accounts receivable.

(d) Materials and Supplies Inventory

Materials and supplies inventory is valued based on the weighted average cost method or net realizable value. To reduce its exposure to rising fuel costs, the Authority entered into a contract that fixed the prices of certain vehicle fuels purchased from September 1, 2016 through August 31, 2019, with the option to extend the contract for two additional one year periods. The Authority expects to take delivery of the fuel as specified, and therefore, the agreement is considered a normal purchase contract.

(e) Restricted Assets

Certain cash deposits and investments are classified as restricted assets in accordance with bonding requirements or because their use is legally limited to specific purposes such as airport capital expansion and operations, and the LRRT system. The Authority's policy is to use restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

(f) Investments

The Authority's investment policies comply with the New York State Comptroller's guidelines for Public Authorities. Investments consist primarily of certificates of deposits with original maturities greater than three months and obligations of the U.S. Government valued at cost, which approximates fair value.

(g) Bond Costs and Premiums

Bond issuance costs, with the exception of prepaid insurance, are expensed as incurred. Premiums received upon the issuance of debt are included with the debt liability and amortized as interest expense over the life of the related obligation.

(h) Capital Assets

The Authority's policy is to capitalize assets that cost at least $5,000 and have estimated useful lives of 2 years or more. Capital assets are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The useful lives used in computing depreciation on principal classes of capital assets are as follows:

	Estimated Useful Life
Metropolitan transportation centers	25
Improvements	10 - 25
Buildings	10 - 45
LRRT system	10 - 45
Motor buses	12
Marine terminals, docks, and wharves	10 - 40
Equipment and other	2 - 10

Maintenance and repairs are charged to operations as incurred unless the repair significantly increases the value or life of the asset.

(i) Other Current Liabilities

Advances

The Authority administers the funding of regional transportation improvement projects on behalf of the Federal Highway Administration (FHWA) for the Niagara International Transportation Technology Coalition (NITTEC). At March 31, 2017 and 2016, net advance payments provided by the FHWA for regional construction projects authorized by NITTEC and the FHWA totaled $5,850,000 and $5,528,000, respectively.

Mortgage Recording Tax Revenue

As required by New York State legislation, the Authority receives a percentage of mortgage recording taxes collected by Erie County and Niagara County. Receipts are recorded as other liabilities until all eligibility requirements are met.

(j) Self-Insured Claims

The Authority is self-insured for property damage, environmental claims, personal injury liability, and workers' compensation claims. An estimate of the liability is made by the Authority based primarily on information available from third-party administrator claims, actuarial studies, and in-house and outside legal counsel.

(k) Pensions

The Authority has elected to participate in the New York State and Local Retirement System, including the Employees' Retirement System (ERS) and the Police and Fire Retirement System (PFRS). The Authority provides retirement benefits to substantially all employees through various defined benefit retirement plans. For ERS and PFRS, the Authority recognizes its proportionate share of the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by ERS and PFRS. ERS and PFRS recognize benefit payments when due and payable in accordance with benefit terms; investment assets are reported at fair value.

(l) Postemployment Benefits

In addition to providing pension benefits, the Authority provides various health insurance coverage to retired employees (Note 10). Substantially all employees become eligible for these benefits when they reach normal retirement age with a minimum of ten years of service.

(m) Other Noncurrent Liabilities

Other noncurrent liabilities consist primarily of amounts due to the New York State retirement system pursuant to the New York State Pension Contribution Stabilization Program (Note 9) and the fair value of interest rate swap agreements (Note 6).

(n) Revenue Recognition

The Authority's principal sources of operating revenues are fares, airport fees and services, rental income, and concessions and commissions. Operating revenues from fares represent surface transportation services and are generated from cash and various fare media including tickets, passes, and tokens which are recognized as income as they are used. Operating revenues from airport fees and services include landing and terminal ramp fees. Rental income includes building and ground space rented to airlines and air cargo carriers, among others. Operating revenues from concessions and commissions include parking fees and rental of retail space. These sources of operating revenues are recognized upon provision of services. Commissions from auto rental companies are recognized based upon a monthly percentage of revenues earned during the contractual year with an annual adjustment for any minimum annual guaranteed fees.

The Authority receives operating assistance and capital contributions pursuant to various federal, state and local government contracts and grant agreements. Operating assistance and capital contributions are recorded as revenue based on annual appropriations or when expenditures have been incurred in compliance with grant requirements. Operating assistance and capital contributions represent 52% and 54% of total revenue for the year ended March 31, 2017 and 2016. A significant decrease in this funding may negatively impact future operations of the Authority.

(o) Taxes

As a public benefit entity, the Authority is exempt from federal and state income tax, as well as state and local property and sales taxes, with the exception of certain agreements for payments made in lieu of tax.

(p) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(q) Administrative Services

In accordance with agreements between the Authority and the New York State Department of Transportation, the Authority functions as the "host agency" for the Greater Buffalo Niagara Regional Transportation Council (GBNRTC), the designated Metropolitan Planning Organization (MPO) for the metro region including Erie and Niagara counties, and NITTEC, a regional traffic operations center. As the host agency for both organizations, the Authority provides certain administrative responsibilities relating to grants management and accounting functions; however, the Authority has no budgetary oversight and no responsibility for operations, deficits or debts. Consequently, the Authority's financial statements do not include the assets, liabilities, revenues or expenses of GBNRTC or NITTEC. The Authority administered reimbursement grants totaling $4,515,000 and $4,287,000 for GBNRTC and NITTEC combined during fiscal 2017 and 2016.

(3) Change in Accounting Principle

Effective April 1, 2016, the Authority adopted GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement addresses accounting and financial reporting for the Postretirement Medical Stipend Plan provided to certain Authority retirees. The statement also requires various note disclosures (Note 9) and required supplementary information. Actuarially determined amounts for the year ended March 31, 2016 are not available, and as a result, beginning of year net position has been restated as follows (in thousands):

Net position previously reported, April 1, 2016	$	383,179
Net pension liability		(24,705)
Net position as restated	$	358,474

(4) Cash Deposits and Investments

The Authority has a written investment policy which is in compliance with the Authority's enabling legislation under Sections 1299e and 2925(3)(f) of the New York State Public Authorities Law. Further, pursuant to collateralizing its investments, the Authority is subject to General Municipal Law Section 10, *Deposit of Public Money,* whereby all cash, cash equivalents, and investments are fully insured by the Federal Deposit Insurance Corporation (FDIC) and/or are fully collateralized with U.S. government obligations held in the name of the Authority. Investments consist of certificates of deposit and U.S. Treasury notes purchased directly by the Authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. At March 31, 2017 and 2016, the Authority's bank deposits were fully insured by FDIC or collateralized in accordance with the above requirements.

(5) Capital Assets

(in thousands)	April 1, 2016	Additions	Reclassifications and Disposals	March 31, 2017
Non-depreciable capital assets:				
Land	$ 63,018	$ 315	$ (3)	$ 63,330
Construction in progress	43,429	(9,919)	-	33,510
Total non-depreciable capital assets	106,447	(9,604)	(3)	96,840
Depreciable capital assets:				
Land improvements	315,483	2,232	(718)	316,997
LRRT system	618,717	15,385	(7,193)	626,909
Airport buildings	274,480	1,097	344	275,921
Metropolitan transportation centers	21,582	174	-	21,756
Marine terminals, docks, and wharves	18,172	-	(16,429)	1,743
Motor buses	136,663	22,308	(6,415)	152,556
Equipment, buildings, and other	133,397	14,016	(2,653)	144,760
Total depreciable capital assets	1,518,494	55,212	(33,064)	1,540,642
Accumulated depreciation:				
Land improvements	216,718	11,686	(720)	227,684
LRRT system	451,163	13,399	(7,202)	457,360
Airport buildings	127,613	8,987	(53)	136,547
Metropolitan transportation centers	15,121	475	-	15,596
Marine terminals, docks, and wharves	17,301	78	(15,727)	1,652
Motor buses	91,506	9,583	(6,401)	94,688
Equipment, buildings, and other	94,843	7,570	(2,666)	99,747
Total accumulated depreciation	1,014,265	51,778	(32,769)	1,033,274
Total depreciable assets, net	504,229	3,434	(295)	507,368
	$ 610,676	$ (6,170)	$ (298)	$ 604,208

(in thousands)	April 1, 2015	Additions	Reclassifications and Disposals	March 31, 2016
Non-depreciable capital assets:				
Land	$ 61,828	$ 1,190	$ -	$ 63,018
Construction in progress	45,527	(2,098)	-	43,429
Total non-depreciable capital assets	107,355	(908)	-	106,447
Depreciable capital assets:				
Land improvements	321,340	5,807	(11,664)	315,483
LRRT system	603,900	15,040	(223)	618,717
Airport buildings	271,317	3,371	(208)	274,480
Metropolitan transportation centers	20,846	1,399	(663)	21,582
Marine terminals, docks, and wharves	18,502	145	(475)	18,172
Motor buses	136,070	3,867	(3,274)	136,663
Equipment, buildings, and other	131,195	7,722	(5,520)	133,397
Total depreciable capital assets	1,503,170	37,351	(22,027)	1,518,494
Accumulated depreciation:				
Land improvements	215,921	12,462	(11,665)	216,718
LRRT system	438,234	13,152	(223)	451,163
Airport buildings	119,998	9,157	(1,542)	127,613
Metropolitan transportation centers	15,285	499	(663)	15,121
Marine terminals, docks, and wharves	17,538	183	(420)	17,301
Motor buses	86,789	7,992	(3,275)	91,506
Equipment, buildings, and other	92,467	6,606	(4,230)	94,843
Total accumulated depreciation	986,232	50,051	(22,018)	1,014,265
Total depreciable assets, net	516,938	(12,700)	(9)	504,229
	$ 624,293	$ (13,608)	$ (9)	$ 610,676

(6) Long-Term Debt

(a) *Long-term Obligations (in thousands)*

	2017	2016
(1) Airport Revenue Bonds 2014:		
Series A, maturing April 1, 2029 with variable annual principal payments commencing April 1, 2015, bearing interest at 3.0% to 5.0% (net of unamortized premium of $5,838 in 2017 and $6,673 in 2016)	$ 67,159	$ 69,083
Series B, maturing April 1, 2019 with variable annual principal payments commencing April 1, 2016, bearing interest at 4.0% to 5.0% (net of unamortized premium of $300 in 2017 and $620 in 2016)	9,735	13,050
(2) Airport Revenue Bonds 2004:		
Series A, maturing April 1, 2024 with variable annual payments commencing March 10, 2005, bearing fixed interest at 3.646% and a variable auction interest rate, offset by earned swap interest rate at 71% of the prevailing LIBOR rate	27,800	31,250
Series C, maturing April 1, 2024 with variable annual payments commencing March 10, 2005, bearing fixed interest at 3.55% and a variable auction interest rate, offset by earned swap interest rate at 69% of the prevailing LIBOR rate	4,375	4,925
(3) New York State, non-interest bearing	3,380	3,380
(4) Capital leases, monthly payments with fixed interest rates ranging from 4.19% to 6.59%, maturing in 2019, secured by related equipment	797	1,093
(5) Environmental Facilities Corporation (EFC) maturing January 15, 2020 with variable annual principal payments, bearing interest at 5.662% to 5.742%, offset by a variable refunding interest credit provided by EFC (NYS EFC Series 2011A)	735	965
(6) Capital leases, monthly payments with fixed interest rate of 2.91%, maturing in 2025, secured by related equipment	3,537	3,890
(7) Capital leases, monthly payments with fixed interest rate of 4.27%, maturing in 2020, secured by related equipment	847	1,115

	2017	2016
(8) Capital lease, monthly payments with fixed interest rate of 7.75%, maturing in 2032, secured by related equipment	3,783	3,902
(9) Capital lease, monthly payments with fixed interest rate of 2.57%, maturing in 2022, secured by related equipment	1,786	2,072
(10) Capital lease, monthly payments with fixed interest rate of 1.511% maturing in 2023, secured by related equipment	9,641	-
	133,575	134,725
Less current portion	11,321	9,636
	$ 122,254	$ 125,089

(1) On September 3, 2014, the Authority issued $65,340,000 Series 2014A and $12,430,000 Series 2014B Airport Revenue Bonds at a premium of $9,336,000. These bonds were issued to refund outstanding Series 1999A, 1999B, and 1998 bonds in the amounts of $61,525,000, $13,775,000, and $13,485,000, respectively.

(2) On January 15, 2004, the Authority issued $63,000,000 Series 2004A and $10,025,000 Series 2004C Airport Revenue Bonds with fixed interest rates of 3.646% and 3.55%, respectively, and variable auction rates offset by a swap of fixed percentages of the prevailing LIBOR rate. These bonds were issued to refund the Series 1994A and the Series 1994C Airport Revenue Bonds of $55,435,000 and $9,765,000 with interest rates ranging from 5.70% to 6.25% for Series 1994A and 5.50% to 6.00% for Series 1994C, respectively.

(3) The State Legislature passed a law in 1994 that granted the Authority immediate relief from the repayment covenant for a non-interest bearing loan totaling $3,380,000. The law provides in pertinent part that repayment of the loan would be deferred for a two-year period, which expired on May 12, 1996. The Director of the Budget has been granted the discretion to either enter into an agreement with the Authority setting forth a schedule for reimbursement without interest or waive the requirement for reimbursement in whole or in part. No decision has been made to date. Maturities for this loan have been included in the category of loans and capital leases for long-term debt maturities for 2033 through 2037 due to the uncertainty of repayment.

The Airport Revenue Bonds from 2014, 2004, and NYS EFC Series 2011A are payable from and secured by a lien against net revenues derived from the operations of the BNIA. Payment of scheduled bond principal and interest payments are also guaranteed by municipal bond insurance policies maintained by the Authority. The bonds are special limited obligations of the Authority. They are neither general obligations of the Authority nor a debt of the State or any political subdivision.

Changes in long-term debt for the years ended March 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Balance, beginning of year	$ 134,725	$ 140,280
Proceeds from issuance of debt	10,478	3,990
Repayment of long-term debt, net of premium amortization	(11,628)	(9,545)
Balance, end of year	133,575	134,725
Less current portion	11,321	9,636
Noncurrent portion	$ 122,254	$ 125,089

Required principal and interest payments for long-term debt, net of unamortized premiums, were as follows (in thousands):

	Loans and Capital Leases		Serial Bonds		
	Principal	Interest	Principal	Unamortized Premium	Interest
Years ending March 31,					
2018	$ 2,821	$ 624	$ 8,500	$ 1,021	$ 4,522
2019	2,904	548	8,995	937	4,101
2020	2,789	469	9,180	826	3,794
2021	2,402	407	9,555	710	3,305
2022	2,420	351	9,930	599	2,920
2023-2027	5,131	1,093	38,830	1,648	8,211
2028-2032	1,252	416	18,676	397	898
2033-2037	4,052	48	-	-	-
	$ 23,771	$ 3,956	$ 103,666	$ 6,138	$ 27,751

At March 31, 2017 and 2016, the Authority was in compliance with all loan and bond covenants.

(b) Derivative Instruments

Interest Rate Swaps

To reduce exposure to changing interest rates, the Authority entered into two hedging interest rate swaps with Goldman Sachs Capital Markets, L.P. in connection with its $73,025,000 Refunding Series 2004A and 2004C variable-rate bonds. The interest rate swaps are forward, floating-to-fixed agreements in notional amounts equal to the outstanding bonds pursuant to which the Authority will pay a specified fixed rate of interest in return for receipts of a variable rate of interest based on a fixed percentage of the prevailing LIBOR rate. The intention of the interest rate swaps was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 3.646% and 3.55% for Series 2004A and 2004C, respectively.

Risks

Below is a list of risks inherent in the Authority's interest rate swaps:

Basis Risk – The risk that the Authority's variable rate interest payments will not equal the variable rate swap receipts because they are based on different indexes. If the rate under the swap is lower than the bond interest rate, the payment under the swap agreement will not fully reimburse the Authority for the interest payments on the bonds. However, if the bond interest rate is lower than the swap payment, there is a net gain to the Authority. At March 31, 2017 and 2016, the unfavorable basis variance totals $2,607,000 and $2,356,000.

Tax Risk – The risk that a change in Federal tax rates will alter the fundamental relationship between auction rates and LIBOR.

Interest Rate Risk – The risk that changes will adversely affect the fair value or cash flows.

Credit Risk – The risk that a counterparty will not fulfill its obligations under the swap. In this event, the Authority would have to pay another entity to assume the position of the defaulting counterparty. The Authority has sought to limit its counterparty risk by contracting with a highly rated entity.

Terms

At March 31, 2017, the negative fair value of the Series 2004A and 2004C interest rate swaps were $2,588,000 and $386,000, respectively. At March 31, 2016, the negative fair value of the Series 2004A and 2004C interest rate swaps was $4,059,000 and $616,000, respectively. At March 31, 2017, the notional amounts of Series 2004A and 2004C swaps were $27,800,000 and $4,375,000, respectively. At March 31, 2016, the notional amounts of Series 2004A and 2004C swaps were $31,250,000 and $4,925,000, respectively. The terms of the interest rate swaps will remain in effect until the bonds are fully matured on April 1, 2024.

The Series 2004A and 2004C interest rate swaps as of March 31, 2012 were considered ineffective because they did not meet the effectiveness criteria under the synthetic instrument method quantitative method of evaluating effectiveness. Therefore, changes in the fair value of the swaps are recorded as derivative instrument losses in the statements of revenues, expenses and changes in net position for 2012 and all future periods.

As of March 31, 2017 and 2016, the negative fair values of all investment and ineffective derivative instruments totaled $2,974,000 and $4,675,000 and are recorded as other noncurrent liabilities. Negative fair value decreases of $1,701,000 and $576,000 for 2017 and 2016 are recorded as non-operating revenues in the statement of revenues, expenses and change in net position.

(7) Passenger Facility Charges

In 1992, the FAA approved the Authority's application to impose collection of Passenger Facility Charges (PFC) at the BNIA. PFCs used specifically for FAA approved projects at the BNIA and included in non-operating revenues totaled $9,271,000 and $9,181,000 for the years ended March 31, 2017 and 2016.

(8) Government Assistance

Operations are funded primarily by passenger fares and operating subsidy payments from the Federal Transit Administration (FTA) under Sections 5307 and 5311 of the Urban Mass Transportation Administration (UMTA) Act; the State, Erie and Niagara Counties (pursuant to State transportation laws); and the Buffalo & Fort Erie Public Bridge Authority. Assistance recognized as revenue for the years ended March 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Metro:		
FTA:		
Section 5307 and 5311 assistance	$ 20,229	$ 19,763
Other	-	68
Total FTA	20,229	19,831
State:		
Statewide transit operating assistance program	47,337	44,748
Section 18b assistance	4,100	4,100
Section 5307 capital maintenance match	2,510	2,462
Total State	53,947	51,310
Erie County:		
88(c) - general	1,850	2,161
Mortgage recording tax (section 88a)	9,236	8,092
Section 18b matching funds	3,657	3,657
Sales tax receipts	19,613	19,507
Total Erie County	34,356	33,417
Niagara County:		
Mortgage recording tax	1,282	1,274
Section 18b matching funds	443	443
Total Niagara County	1,725	1,717
Buffalo and Fort Erie Public Bridge Authority	200	200
	110,457	106,475
NFTA:		
Department of Homeland Security	662	672
	$ 111,119	$ 107,147

(9) Pensions

(a) New York State Retirement System

The Authority participates in ERS and PFRS (the Systems), which are cost-sharing, multiple-employer, public employee retirement systems that provide retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law (NYSRSSL) governs obligations of employers and employees to contribute and provide benefits to employees. The benefits to employees are guaranteed under the State constitution. The Authority's election to participate in the State plans is irrevocable.

As set forth in NYSRSSL, the Comptroller of the State (the Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the Systems and for the custody and control of their funds. The Systems issue publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained from the New York State and Local Retirement System at www.osc.state.ny.us/retire.

Benefits: The Systems provide retirement, disability, and death benefits for eligible members, including automatic cost of living adjustments. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors.

Contribution requirements: No employee contributions are required for those whose service began prior to July 27, 1976. The Systems require employee contributions of 3% of salary for the first 10 years of service for those employees who joined the Systems on or after July 27, 1976 through December 31, 2009. Participants whose service began on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of their salary for the entire length of service. Employees who joined on or after April 1, 2012 contribute based on annual wages at a rate of 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the Authority to the pension accumulation fund. For payments made in fiscal year 2017, rates ranged from 9.3% - 21.8% for ERS (10.5% - 25.2% for 2016) and 7.1% - 24.8% for PFRS (6.4% - 25.1% for 2016).

The Authority participates in the New York State Pension Contribution Stabilization Program (the Program), an optional program which establishes a graded contribution rate system that enables the Authority to pay a portion of its annual contributions over time and more accurately predict pension costs. At March 31, 2017 and 2016, $6,043,000 and $6,670,000, respectively, is due to the Systems pursuant to the Authority's participation in the Program.

Net Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources

At March 31, 2017 and 2016, the Authority reported a liability of $22,292,000 and $3,720,000, respectively, for its proportionate share of the Systems' net pension liability.

The net pension liability as of March 31, 2017 was measured as of March 31, 2016, and the total pension liability was determined by an actuarial valuation as of April 1, 2015. The Authority's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to the Systems' total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2016 measurement date, the Authority's proportion was 0.0878622% for ERS (a decrease of 0.0002785% from 2015) and 0.2766259% for PFRS (an increase of 0.0068384% from 2015).

For the years ended March 31, 2017 and 2016, the Authority recognized pension expense of $8,208,000 and $4,517,000, respectively. At March 31, 2017 and 2016, the Authority reported deferred outflows and deferred inflows of resources as follows:

	2017			
	ERS		**PFRS**	
(in thousands)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 71	$ 1,672	$ 73	$ 1,238
Changes of assumptions	3,760	-	3,531	-
Net difference between projected and actual earnings on pension plan investments	8,366	-	4,590	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	703	6	9	223
Authority contributions subsequent to the measurement date	3,787	-	2,115	-
	$ 16,687	**$ 1,678**	**$ 10,318**	**$ 1,461**

	2016			
	ERS		PFRS	
(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 95	$ -	$ 90	$ -
Net difference between projected and actual earnings on pension plan investments	517	-	249	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	434	-	-	38
Authority contributions subsequent to the measurement date	4,043	-	1,962	-
	$ 5,089	$ -	$ 2,301	$ 38

Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Years ending March 31,	**ERS**	**PFRS**
2018	$ 2,871	1,596
2019	2,871	1,596
2020	2,871	1,596
2021	2,609	1,532
2022	-	422
	$ 11,222	**$ 6,742**

Actuarial Assumptions
The actuarial assumptions used in the April 1, 2015 valuation, with update procedures used to roll forward the total pension liability to March 31, 2016, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation - 2.5%
Salary increases - 3.8% (ERS), 4.5% (PFRS)
Cost of living adjustments - 1.3% annually
Investment rate of return - 7.0% compounded annually, net of investment expense, including inflation
Mortality - Based on ERS and PFRS experience from April 1, 2010 - March 31, 2015 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014
Discount rate - 7.0%

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Investment Asset Allocation

Best estimates of arithmetic real rates of return for each major asset class and the Systems' target asset allocations as of the valuation date are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	38%	7.3%
International equities	13%	8.5%
Private equities	10%	11.0%
Real estate	8%	8.3%
Domestic fixed income securities	2%	4.0%
Bonds and mortgages	18%	4.0%
Short-term	2%	2.3%
Other	9%	6.8%-8.7%
	100%	

Discount Rate

The discount rate projection of cash flows assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Authority's proportionate share of its net pension liability for ERS and PFRS as of March 31, 2017 calculated using the discount rate of 7% and the impact of using a discount rate that is 1% lower and 1% higher:

(in thousands)	1% Lower Discount Rate (6%)	Current Discount Rate (7%)	1% Higher Discount Rate (8%)
Authority's ERS net pension asset (liability)	$ (31,799)	$ (14,102)	$ 851
Authority's PFRS net pension asset (liability)	$ (18,294)	$ (8,190)	$ 279

(b) Past Service Costs Due to ERS

Effective January 1, 1997, active non-bargaining unit participants in the Niagara Frontier Transit Metro System, Inc. Retirement Plan (Metro Plan) transferred to the employment of the NFTA and were given the opportunity to elect to have their contribution accounts transferred from the Metro Plan to ERS. The enabling legislation that provided for the purchase of service credits under ERS for pre-transfer service obligated the Authority to pay ERS additional annual contributions of $465,000 annually commencing December 1997 (in addition to its regular employer contribution) for 25 years. At March 31, 2017 and 2016, related past service costs totaling $2,323,000 and $2,787,000 are included in other noncurrent liabilities.

(c) Niagara Frontier Transit Metro System, Inc. Retirement Plan

The Metro Plan is a single-employer defined benefit pension plan covering certain full-time non-union employees previously employed by Metro. Participation in the Metro Plan was frozen effective January 1, 1998.

Benefits: The Metro Plan provides for retirement and death benefits for eligible members In general, retirement benefits are determined based on an employee's individual circumstances based on age, years of credited service, and compensation.

Employees Covered by Benefit Terms: At the March 31, 2016 measurement date, the following employees were covered by the Metro Plan:

Retired	55
Beneficiaries	12
Terminated vested	17

Contribution requirements: The Authority pays the full cost of all benefits provided under the Metro Plan. The Authority's policy is to fund the minimum recommended contribution as actuarially determined annually. Contributions to the plan were $9,000 in 2016 and $20,000 in 2015.

Net Pension Liability

The net pension liability was measured as of March 31, 2017 based on an actuarial valuation as of March 31, 2016. Actuarial assumptions applied to all periods included in the measurement are as follows:

Actuarial Cost Method - Entry Age Normal
Mortality - Generational RP-2014 Blue Collar Mortality Table using Scale MP-2016
Rate of Return on Plan Assets - 5.70%
Discount Rate - The Plan's fiduciary net position is projected to be available to meet all projected future benefit payments resulting in a single discount rate of 5.70%
Asset Valuation - Market Value
Assumed Retirement Age - Age first eligible for unreduced benefits

Changes in the Net Pension Liability

(in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 3/31/15	$ (5,426)	$ 5,024	$ (402)
Changes for the year:			
Interest	(306)	-	(306)
Differences between expected and actual experience	(125)	-	(125)
Employer contributions	-	20	20
Net investment income	-	370	370
Benefit payments	596	(596)	-
Administrative expense	-	(13)	(13)
Net changes	165	(219)	(54)
Balances at 3/31/16	$ (5,261)	$ 4,805	$ (456)
Changes for the year:			
Interest	(283)	-	(283)
Differences between expected and actual experience	334	-	334
Changes of assumptions	(323)	-	(323)
Employer contributions	-	9	9
Net investment income	-	(5)	(5)
Benefit payments	593	(593)	-
Administrative expense	-	(14)	(14)
Net changes	321	(603)	(282)
Balances at 3/31/17	**$ (4,940)**	**$ 4,202**	**$ (738)**

The impact of using a discount rate that is 1% lower (4.70%) than the current rate would result in a net pension liability of $1,095,000 and at 1% higher (6.70%) would result in a net pension liability of $425,000.

(d) Amalgamated Transit Union Division 1342 NFT Metro Pension Plan

Plan Description

All full-time Metro employees who are ATU members are covered by the Amalgamated Transit Union Local 1342 Niagara Frontier Transit Metro System Pension Fund (the ATU Plan), a defined benefit pension plan established in accordance with an Agreement and Declaration of Trust between the ATU and Metro (the Agreement). Pursuant to the ATU Union Contract, a portion of part-time employee compensation is also contributed by Metro to the ATU Plan, although part-time employees do not participate in or benefit from the ATU Plan.

The ATU Plan is managed by four trustees: two union representatives and two management representatives. These trustees are responsible for management of investments and payments to retirees. The ATU Plan issues a publicly available financial report that includes financial statements and notes. That report may be obtained by writing to Amalgamated Transit Union Local 1342, 196 Orchard Park Road, West Seneca, New York 14224.

Funding Requirement

On a weekly basis, each eligible employee is required to contribute the greater of sixteen dollars or 4% of payroll. Metro's contribution is 11% of eligible employee wages and is determined pursuant to the collective bargaining agreement (CBA) between Metro and the ATU. Metro's contributions to the Plan recorded on the statements of revenues, expenses and change in net position, pursuant to the CBA, totaled $5,150,000 and $5,300,000 for 2017 and 2016. The Agreement provides that Metro is not obligated to make any other payment to fund the benefits or to meet any expenses of administration and, in the event of termination, Metro will have no obligation for further contributions to the ATU Plan. Therefore, net pension assets and liabilities of the ATU plan are not recorded by the Authority.

(e) Postretirement Medical Premium Stipend Plan

Effective April 1, 2016, the Authority recognizes the net pension liability related to its single-employer Postretirement Medical Premium Stipend Plan (the Stipend Plan) in accordance with new accounting standards as described in Note 3. Data required to record the Stipend Plan is unavailable for the year ended March 31, 2016.

The Authority's Metro retirees are provided with a monthly stipend representing the insurance premium amount of single medical coverage if they retired prior to January 1, 2004. If they retired subsequent to January 1, 2004, Metro retirees are provided with continuation of full medical coverage as described in Note 10.

As of March 31, 2017, there are 158 retirees within Metro who retired prior to January 1, 2004. Monthly, each retiree is provided with a cash stipend equivalent to the single medical premium cost or, if enrolled in Medicare, the retiree is provided with an amount equal to the Medicare Part B premium and $932. The retiree has the option of any combination of cash stipend and/or health insurance continuation.

The Authority's annual pension cost and net pension obligation as of March 31, 2017 related to the Stipend Plan was (in thousands):

(in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 3/31/16	$ 3,190	$ -	$ 3,190
Restatement (Note 3)	(24,705)	-	(24,705)
Balances at 3/31/16, as restated	(21,515)	-	(21,515)
Changes for the year:			
Interest	(922)	-	(922)
Differences between expected and actual experience	1,661	-	1,661
Changes of assumptions	(1,055)	-	(1,055)
Benefit payments	2,118	-	2,118
Net changes	1,802	-	1,802
Balances at 3/31/17	**$ (19,713)**	**$ -**	**$ (19,713)**

A summary of the actuarial methods and assumptions is provided below:

- Actuarial valuation and measurement date of March 31, 2017
- Healthcare cost trend is estimated at 5.90% next year, ultimately declining to 3.94% in year 2075
- Actuarial cost method used is Entry Age Normal
- Discount rate is 3.86%
- RP-2014 Blue Collar Mortality Table projected using Scale MP-2016

The following presents the Authority's Stipend Plan net pension liability as of March 31, 2017 calculated using the discount rate of 3.86% and the impact of using a discount rate that is 1% lower and 1% higher:

(in thousands)	1% Lower Discount Rate (2.86%)	Current Discount Rate (3.86%)	1% Higher Discount Rate (4.86%)
Authority's Stipend Plan net pension liability	$ (21,371)	$ (19,713)	$ (18,282)

(10) Postemployment Benefits

The Authority provides a defined benefit postemployment health care plan (the Plan) for essentially all full-time employees with a minimum of ten years of service upon retirement. Upon retirement, most Authority employees are provided a portion of medical coverage while certain management employees hired prior to February 2004 are provided with continuation of full medical coverage.

The Authority recognizes the costs of other postemployment benefits (OPEB) during the periods when employees render services that will eventually entitle them to the benefits. This cost is referred to as the annual required contribution (ARC) and includes:

- amortization of the unfunded actuarial accrued liability (UAAL) for the current year, which is the actuarially-determined and unfunded present value of all future OPEB costs associated with current employees and retirees as of the beginning of the year

- normal cost which is the actuarially-determined cost of future OPEB earned in the current year

The ARC represents an amount that, if funded each year, would ultimately satisfy the UAAL at the end of the amortization period (30 years) as well as each year's normal cost during that timeframe. A liability is recognized to the extent that actual funding is less than the ARC. This liability is reflected as a noncurrent liability on the statements of net position as other postemployment benefits. The Authority's Board has the authority to establish a funding policy for the Plan. The Authority's current policy is to fund the benefits to the extent of premium payments, on a "pay-as-you-go" basis. The plan does not issue a publicly available financial report.

The following table summarizes the Authority's ARC, the amount actually contributed to the Plan, and changes in the Authority's net OPEB obligation for the year ended March 31, 2017 and 2016 (in thousands):

	2017	2016
Annual required contribution		
Normal cost	**$ 8,462**	$ 9,521
Amortization of UAAL	**11,746**	14,070
Annual required contribution	**20,208**	23,591
Interest on OPEB obligation	**5,510**	5,436
Adjustment to ARC	**(8,110)**	(7,417)
Annual OPEB cost	**17,608**	21,610
Employer contributions	**(4,063)**	(4,689)
Increase in net OPEB obligation	**13,545**	16,921
Net OPEB obligation, beginning of year	**137,739**	120,818
Net OPEB obligation, end of year	**$ 151,284**	$ 137,739

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation were as follows (in thousands):

March 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$ 17,608	23.07%	$ 151,284
2016	$ 21,610	21.70%	$ 137,739
2015	$ 16,391	24.45%	$ 120,818

The actuarial analysis supporting the obligation for 2017 was completed using a full valuation as of April 1, 2016. The total unfunded actuarial accrued liability (UAAL) for future benefits was $199,492,000, which includes $156,296,000 for Metro. These projections are based on the April 1, 2016 census data, claims information and the impact of healthcare reform. The covered payroll (annual payroll of active employees covered by the plan) was $85,934,000 and the ratio of the UAAL to the covered payroll was 232.1%.

The actuarial valuation involves estimates of costs and the impacts of events far into the future. Examples include employee turnover and retirement rates, employee and retiree mortality, and changes in health care costs and interest rates. The benefits are subject to routine actuarial revaluations and these analyses will reflect revised estimates and assumptions as actual results are compared to past projections and expectations of the future. Any changes in these factors will impact the results of future valuations.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial calculations reflect a long-term prospective and use techniques designed to reduce short-term volatility in actuarial accrued liabilities. A summary of the methods and assumptions is provided below:

- Medical trend based on Society of Actuaries Long Term Medical Trend Model. The rate in 2017 is 5.90%. The ultimate rate is 4.00% Pre-Medicare and 3.90% Post-Medicare and is reached in 2075
- Actuarial cost method used is Entry Age Normal (projected unit credit in 2016)
- Discount rate is 4.0% (4.5% in 2016)
- Amortization method is level dollar method, closed (level dollar open in 2016)
- Generational RP-2014 Blue Collar Mortality Table using Scale MP-2016

(11) Leases

A portion of the Authority's revenue is generated by a number of fixed-term operating leases at its airport, marine and transportation center facilities. The leases generally provide for rentals determined on the basis of a rate per square foot occupied or a percentage of the lessee's gross revenues with guaranteed minimum amounts. Total revenue from leases was $59,807,000 and $59,531,000 in 2017 and 2016, which includes guaranteed minimum rentals of $22,960,000 and $21,769,000 during 2017 and 2016, respectively.

Rental income is derived primarily from airport operations. At March 31, 2017 and 2016, airport capital assets totaled $232,700,000 and $239,674,000, of which approximately 40% is leased to third parties (based on square footage).

Fixed-term operating leases in effect at March 31, 2017 are expected to yield future minimum rentals as follows:

Years ending March 31,	
2018	$ 19,441
2019	12,703
2020	4,525
2021	4,482
2022	4,303
2023 - 2027	16,090
2028- 2032	2,462
2033 - 2037	977
2038 - 2042	795
2043 - 2047	63
	$ 65,841

(12) Commitments and Contingencies

(a) Litigation and Claims

In the normal course of business, it is not uncommon for the Authority to incur litigation surrounding certain events. There are outstanding lawsuits involving substantial amounts that have been filed against the Authority. Based on the facts presently known, management and in-house legal counsel do not expect these matters to have a material adverse effect on the Authority's financial condition or results of operations.

(b) Self-Insured Claims

The Authority assumes the liability for most risks including, but not limited to, workers compensation, health, property damage, environmental claims, and personal injury claims. The Authority has excess insurance from commercial carriers to cover claims in excess of $1,250,000 per occurrence for workers compensation claims and limits ranging from $50,000 to $5 million depending on the type of claim for other self-insured claims. Estimated liabilities for claims not covered by insurance have been reflected in the financial statements. Workers' compensation liabilities are estimated based on an actuarial valuation dated April 15, 2016. Other self-insured liabilities are estimated by the Authority based on available information. Management believes the estimated liabilities are reasonable based upon historical experience and the opinions of internal risk management administrators and legal counsel.

Changes in the reported liability claims for the year ended March 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Liability, beginning of year	**$ 40,032**	$ 35,824
Current year claims and change in estimate	**10,515**	12,624
Claim payments	**(8,023)**	(8,416)
Liability, end of year	**$ 42,524**	$ 40,032

(c) Project Commitments

As of March 31, 2017, the Authority has commenced several projects including:

- Metro 24 Transit buses estimated at $13,560,000 of which none was expended
- BNIA Terminal Roof Replacement estimated at $9,230,000 of which $8,000 was expended
- BNIA Runway 14.32 Rehabilitation estimated at $15,495,000 of which $1,413,000 was expended
- Metro Rail Escalator/Elevator Rehabilitation estimated at $6,552,000 of which $2,008,000 was expended
- BNIA Baggage Claim Expansion estimated at $3,814,000 of which $660,000 was expended
- Rail car refurbishment estimated at $45,595,000 of which $36,991,000 was expended
- BNIA Aircraft Rescue and Fire Fighting Facility estimated at $11,346,000 of which $10,405,000 was expended
- Metro (Bus and Rail) fare collection upgrade $20,271,000 of which $4,301,000 was expended

Funding for these projects will be provided from anticipated federal, state and local grant awards, passenger facility charges, outside financing and other revenue sources.

(13) Segment Information – Buffalo Niagara International Airport

BNIA is Western New York's primary passenger and cargo airport. In fiscal year 1991, the Authority began the Airport Improvement Program to build a new terminal building and provide improved facilities for BNIA passengers. The Authority issued Airport Revenue Bonds (Note 6) pursuant to a Master Resolution approved by the Board of Commissioners for the construction of BNIA. The Master Resolution contains certain compliance covenants including requiring net airport revenues to be a minimum percentage of net debt service. The bonds are payable from and are secured by a lien on net revenues derived from the operations of BNIA. The bonds are special limited obligations of the Authority. They are not general obligations of the Authority and are not a debt of the State or any political subdivision.

(a) BNIA Condensed Balance Sheets (in thousands)

	2017	2016
Assets:		
Current and other	$ 87,493	$ 80,576
Capital assets, net	232,700	239,674
Total assets	320,193	320,250
Deferred outflows of resources	9,605	400
Total assets and deferred outflows of resources	$ 329,798	$ 320,650
Liabilities:		
Current liabilities	$ 15,211	$ 14,423
Long-term liabilities	123,012	126,595
Total liabilities	138,223	141,018
Deferred inflows of resources	1,198	-
Net position:		
Net investment in capital assets	117,222	114,514
Restricted	45,263	42,124
Unrestricted	27,892	22,994
Total net position	190,377	179,632
Total liabilities, deferred inflows of resources, and net position	$ 329,798	$ 320,650

(b) BNIA Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	2017	2016
Operating revenues:		
Concessions and commissions	$ 26,211	$ 26,005
Rental income	11,727	11,170
Airport fees and services	16,941	16,183
Other	4,100	3,552
Total operating revenues	58,979	56,910
Operating expenses	41,271	39,438
Depreciation expense	17,710	18,570
Operating loss	(2)	(1,098)
Non-operating revenues (expenses):		
Passenger facility charges	9,271	9,181
Change in fair value of swap agreements	1,701	576
Interest expense, net	(3,756)	(3,862)
Airport noise abatement	(489)	(2,819)
Other, net	522	(3,207)
Operating transfers	2,070	(4,250)
Change in net position before capital contributions	9,317	(5,479)
Capital contributions	1,428	4,894
Change in net position	10,745	(585)
Net position - beginning of year	179,632	180,217
Net position - end of year	$ 190,377	$ 179,632

(c) BNIA Condensed Statements of Cash Flows (in thousands)

	2017	2016
Net operating activities	$ 19,324	$ 28,967
Net investing activities	(11,614)	118
Net capital and related financing activities	(14,260)	(14,688)
Net change in cash	(6,550)	14,397
Cash, beginning of year	54,869	40,472
Cash, end of year	$ 48,319	$ 54,869

(d) *Master Resolution Covenant*

As required by the Master Resolution authorizing the issuance of airport revenue bonds, the Authority charges rates, rentals, and fees at the BNIA which are sufficient to pay debt service, operating expenses, and any and all other claims and charges relating to the BNIA. In addition, net airport revenues must at all times be at least 125% of net debt service on all bonds outstanding. The Authority has the ability to bill the airlines to meet the bond covenant pursuant to the Airline Use and Lease Agreement.

Airport revenues are defined in the Master Resolution as the total of all revenue from all sources collected by the Authority at the BNIA, which specifically excludes passenger facility charges and includes interest income. Passenger facility charges are not pledged as security for the Airport Revenue Bonds. Operating expenses are defined as all costs to operate and maintain the BNIA including general, administrative, and professional fee expenses allocated by the Authority. Debt service is defined as the total amount required to pay principal and interest, net of amounts available for the payment of interest as defined by the Master Resolution.

	2017	2016
Airport revenues:		
Operating revenues	$ 58,979	$ 56,910
Interest income	150	112
Gross airport revenues	59,129	57,022
Operating expenses, excluding depreciation	(41,271)	(39,438)
Net airport revenues	$ 17,858	$ 17,584
Net debt service:		
Principal payable	8,315	6,850
Interest payable	5,146	5,548
Passenger facility charges	(535)	(535)
Net debt service	$ 12,926	$ 11,863
Debt service coverage percentage	138.16%	148.23%
Minimum percentage requirement	125.00%	125.00%

Required Supplementary Information (Unaudited)
Schedule of the Authority's Proportionate Share of the Net Pension Liability
New York State and Local Retirement System (In thousands)

As of the measurement date of March 31,	2016	2015
ERS		
Authority's proportion of the net pension liability	0.0878622%	0.0881407%
Authority's proportionate share of the net pension liability	$ 14,102,000	$ 2,978,000
Authority's covered payroll	$ 24,187,000	$ 24,546,000
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	58.30%	12.13%
Plan fiduciary net position as a percentage of the total pension liability	90.70%	97.90%
PFRS		
Authority's proportion of the net pension liability	0.2766259%	0.2697875%
Authority's proportionate share of the net pension liability	$ 8,190,000	$ 742,000
Authority's covered payroll	$ 9,675,000	$ 9,124,000
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	84.65%	8.13%
Plan fiduciary net position as a percentage of the total pension liability	90.20%	99.00%

Data prior to 2015 is unavailable.

The following is a summary of changes in assumptions:

As of the measurement date of March 31,	**2016**	**2015**
Inflation	2.5%	2.7%
Salary increases	3.8%	4.9%
Cost of living adjustments	1.3%	1.4%
Investment rate of return	7.0%	7.5%
Discount rate	7.0%	7.5%

Required Supplementary Information (Unaudited)
Schedule of Authority Contributions
New York State and Local Retirement System (In thousands)

March 31,	2017	2016	2015	2014
ERS				
Contractually required contribution	$ 3,787,000	$ 4,291,000	$ 4,855,000	$ 4,541,000
Contribution in relation to the contractually required contribution	(3,787,000)	(4,291,000)	(4,855,000)	(4,541,000)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 24,628,000	$ 24,187,000	$ 24,546,000	$ 22,847,000
Contributions as a percentage of covered payroll	15.38%	17.74%	19.78%	19.88%
PFRS				
Contractually required contribution	$ 2,115,000	$ 1,962,000	$ 2,394,000	$ 2,230,000
Contribution in relation to the contractually required contribution	(2,115,000)	(1,962,000)	(2,394,000)	(2,230,000)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 9,078,000	$ 9,675,000	$ 9,124,000	$ 8,796,000
Contributions as a percentage of covered payroll	23.30%	20.28%	26.24%	25.35%

Data prior to 2014 is unavailable.

Required Supplementary Information (Unaudited)
Schedule of Net Pension Liability
Postretirement Medical Premium Stipend Plan (In thousands)

March 31, 2017

Total pension liability	
Interest	$ 922
Differences between expected and actual experience	(1,661)
Changes of assumptions	1,055
Benefit payments	(2,118)
	(1,802)
Total pension liability - beginning	21,515
Total pension liability - ending	$ 19,713

Data prior to 2017 is unavailable.

There are no assets accumulated in a trust.

Required Supplementary Information (Unaudited)
Schedule of Funding Progress for Other Postemployment Benefits
(In thousands)

For the year ended March 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (UAAL)	Deficiency of Assets over UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
4/1/2010	$ -	$ 226,304	$ (226,304)	0%	$ 83,823	270.0%
4/1/2012	$ -	$ 194,540	$ (194,540)	0%	$ 82,536	235.7%
4/1/2014	$ -	$ 229,180	$ (229,180)	0%	$ 85,219	268.9%
4/1/2016	$ -	$ 199,492	$ (199,492)	0%	$ 85,934	232.1%

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

Additional Information
Combining Balance Sheets (In thousands)

March 31,	2017			
	NFTA	**BNIA**	**Metro**	**Total**
Assets				
Current assets:				
Cash and cash equivalents	$ 5,752	$ 20,749	$ 23,653	$ 50,154
Investments	-	12,500	-	12,500
Accounts receivable, net	4,936	716	1,560	7,212
Grants receivable	1,689	507	10,562	12,758
Due to/from affiliate	(27,530)	7,115	20,415	-
Materials and supplies inventory	-	-	4,980	4,980
Prepaid expenses and other	63	643	208	914
	(15,090)	42,230	61,378	88,518
Restricted assets:				
Cash and cash equivalents	7,400	27,570	2,805	37,775
Investments	-	17,693	25	17,718
	7,400	45,263	2,830	55,493
Capital assets, net	81,196	232,700	290,312	604,208
Total assets	73,506	320,193	354,520	748,219
Deferred outflows of resources:				
Deferred outflows of resources from pensions	9,972	9,605	7,428	27,005
Total assets and deferred outflows of resources	$ 83,478	$ 329,798	$ 361,948	$ 775,224
Liabilities				
Current liabilities:				
Current portion of long-term debt	$ 384	$ 8,768	$ 2,169	$ 11,321
Accounts payable and accrued expenses	9,542	6,367	14,289	30,198
Other current liabilities	6,088	76	3,661	9,825
	16,014	15,211	20,119	51,344
Noncurrent liabilities:				
Long-term debt	4,729	105,165	12,360	122,254
Other postemployment benefits	25,917	5,178	120,189	151,284
Estimated liability for self-insured claims	2,065	2,534	37,925	42,524
Net pension liability	9,621	7,162	25,960	42,743
Other noncurrent liabilities	6,042	2,973	2,323	11,338
	48,374	123,012	198,757	370,143
Total liabilities	64,388	138,223	218,876	421,487
Deferred inflows of resources:				
Deferred inflows of resources from pensions	1,028	1,198	913	3,139
Net position				
Net investment in capital assets	76,744	117,222	272,722	466,688
Restricted	1,549	45,263	1,054	47,866
Unrestricted	(60,231)	27,892	(131,617)	(163,956)
Total net position	18,062	190,377	142,159	350,598
Total liabilities, deferred inflows of resources, and net position	$ 83,478	$ 329,798	$ 361,948	$ 775,224

2016			
NFTA	BNIA	Metro	Total
$ 2,812	$ 31,181	$ 3,548	$ 37,541
-	-	-	-
107	1,503	2,298	3,908
3,202	583	31,320	35,105
(11,780)	4,426	7,354	-
-	-	4,735	4,735
82	759	220	1,061
(5,577)	38,452	49,475	82,350
7,433	23,688	3,504	34,625
-	18,436	25	18,461
7,433	42,124	3,529	53,086
86,359	239,674	284,643	610,676
88,215	320,250	337,647	746,112
6,755	400	235	7,390
$ 94,970	$ 320,650	$ 337,882	$ 753,502
$ 363	$ 8,572	$ 701	$ 9,636
11,906	5,726	16,560	34,192
5,694	125	2,660	8,479
17,963	14,423	19,921	52,307
5,113	115,088	4,888	125,089
27,078	3,966	106,695	137,739
1,930	2,652	35,450	40,032
175	214	597	986
6,670	4,675	2,787	14,132
40,966	126,595	150,417	317,978
58,929	141,018	170,338	370,285
38	-	-	38
75,939	114,514	276,007	466,460
1,905	42,124	2,143	46,172
(41,841)	22,994	(110,606)	(129,453)
36,003	179,632	167,544	383,179
$ 94,970	$ 320,650	$ 337,882	$ 753,502

Additional Information
Combining Schedules of Revenues, Expenses and Change in Net Position (In thousands)

For the years ended March 31,	2017			
	NFTA	BNIA	Metro	Total
Operating revenues:				
Fares	$ -	$ -	$ 36,866	$ 36,866
Concessions and commissions	2,059	26,211	-	28,270
Rental income	6,121	11,727	-	17,848
Airport fees and services	249	16,941	-	17,190
Other operating revenues	244	4,100	1,345	5,689
Total operating revenues	8,673	58,979	38,211	105,863
Operating expenses:				
Salaries and employee benefits	17,805	13,564	106,241	137,610
Other postemployment benefits	3,089	152	10,304	13,545
Depreciation	5,517	17,710	28,551	51,778
Maintenance and repairs	2,699	8,067	9,608	20,374
Transit fuel and power	-	-	3,805	3,805
Utilities	889	1,980	1,585	4,454
Insurance and injuries	370	373	3,011	3,754
Other	1,803	12,991	3,455	18,249
Administration cost reallocation	(9,503)	4,144	5,359	-
Total operating expenses	22,669	58,981	171,919	253,569
Operating loss	(13,996)	(2)	(133,708)	(147,706)
Non-operating revenues (expenses):				
Government assistance	662	-	110,457	111,119
Passenger facility charges	-	9,271	-	9,271
Change in fair value of swap agreements	-	1,701	-	1,701
Interest expense, net	(259)	(3,756)	(534)	(4,549)
Airport noise abatement	-	(489)	-	(489)
Other non-operating revenues (expenses), net	5,490	522	(3,055)	2,957
Operating transfers	(2,070)	2,070	-	-
Non-operating net revenues (expenses)	3,823	9,319	106,868	120,010
Change in net position before capital contributions	(10,173)	9,317	(26,840)	(27,696)
Capital contributions	(7,768)	1,428	26,160	19,820
Change in net position	(17,941)	10,745	(680)	(7,876)
Net position - beginning of year	36,003	179,632	167,544	383,179
Cumulative effect of restatement (Note 3)	-	-	(24,705)	(24,705)
Net position - beginning, as restated	36,003	179,632	142,839	358,474
Net position - end of year	$ 18,062	$ 190,377	$ 142,159	$ 350,598

	2016			
	NFTA	BNIA	Metro	Total
	$ -	$ -	$ 37,506	$ 37,506
	1,808	26,005	-	27,813
	5,882	11,170	-	17,052
	171	16,183	-	16,354
	203	3,552	929	4,684
	8,064	56,910	38,435	103,409
	14,378	12,548	108,897	135,823
	2,610	704	14,101	17,415
	5,645	18,570	25,836	50,051
	2,690	7,474	9,183	19,347
	-	-	5,137	5,137
	851	1,965	1,438	4,254
	380	408	2,937	3,725
	(1,067)	12,596	3,851	15,380
	(8,560)	3,743	4,817	-
	16,927	58,008	176,197	251,132
	(8,863)	(1,098)	(137,762)	(147,723)
	672	-	106,475	107,147
	-	9,181	-	9,181
	-	576	-	576
	(589)	(3,862)	(275)	(4,726)
	-	(2,819)	-	(2,819)
	2,044	(3,207)	(1,091)	(2,254)
	4,250	(4,250)	-	-
	6,377	(4,381)	105,109	107,105
	(2,486)	(5,479)	(32,653)	(40,618)
	2,240	4,894	19,756	26,890
	(246)	(585)	(12,897)	(13,728)
	36,249	180,217	180,441	396,907
	-	-	-	-
	36,249	180,217	180,441	396,907
	$ 36,003	$ 179,632	$ 167,544	$ 383,179

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS
Cyclorama Building | 369 Franklin Street | Buffalo, NY 14202
p: 716.856.3300 | f: 716.856.2524 | www.LumsdenCPA.com

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

The Board of Commissioners
Niagara Frontier Transportation Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of Niagara Frontier Transportation Authority (the Authority) (a component unit of the State of New York), a business-type activity, as of March 31, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Lumsden & McCormick, LLP

June 22, 2017

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS
Cyclorama Building | 369 Franklin Street | Buffalo, NY 14202
p: 716.856.3300 | f: 716.856.2524 | www.LumsdenCPA.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SECTION 2925(3)(f) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW

The Board of Commissioners
Niagara Frontier Transportation Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Niagara Frontier Transportation Authority (the Authority), a business-type activity and a component unit of the State of New York, which comprise the balance sheet as of March 31, 2017, and the related statement of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated June 22, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with §2925(3)(f) of the New York State Public Authorities Law regarding investment guidelines during the year ended March 31, 2017. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above rules and regulations.

The purpose of this report is solely to describe the scope and results of our testing. This communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

June 22, 2017