

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

FINANCIAL STATEMENTS

MARCH 31, 2016

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

March 31, 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Niagara Frontier Transportation Authority

We have audited the accompanying 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, 2016, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements. We have also audited the Authority's internal control over financial reporting as of March 31, 2016, based on *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

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 effective internal control over financial reporting relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assertion about the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control Over Financial Reporting*.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the Authority's internal control over financial reporting based on our audits. We conducted our audit of the financial statements 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 and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements 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. An audit of financial statements 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. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing other such procedures as we considered necessary in the circumstances.

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

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's 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 expenditures 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.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

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, 2016, and the change in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also in our opinion, the Authority maintained, in all material respects, effective internal control over financial reporting as of March 31, 2016, based on *Internal Control – Integrated Framework* issued by the COSO.

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 x (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 38 and 39 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 23, 2016 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. 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.


June 23, 2016



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 23, 2016



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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, 2016, 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, 2016, 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 23, 2016

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

Management's Discussion and Analysis

For the Years Ended March 31, 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 financial statements of the Authority for the fiscal years ended March 31, 2016 and 2015. Following this MD&A are the financial statements of the Authority, together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Authority are prepared using the economic resources measurement focus and the accrual basis of accounting, which requires that revenues are recorded when earned and expenses are recorded when a liability is incurred, not when the related cash receipt or disbursement occurs.

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 the pensions provided to Authority employees. The cumulative effect on the current statements is a decrease in beginning of year net position totaling \$1,511,000 as detailed in Note 3 to the financial statements.

The Authority's financial statements consist of:

- Balance Sheet
- Statement of Revenues, Expenses and Change in Net Position
- Statement of Cash Flows

The **Balance Sheet** presents information on the Authority's assets, deferred outflows of resources and liabilities 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 over time.

Statement of Revenues, Expenses and Change in Net Position reports the operating and non-operating revenues and expenses of the Authority. The difference, change in net position before capital contributions, combined with capital contributions and special item – property disposition, determines the change in net position for the fiscal year. That change, combined with the previous year's net position total, reconciles to the net position total at the end of this fiscal year.

Statement of Cash Flows reports cash activities for the fiscal year resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The net result of these activities, added to the beginning of the year cash and cash equivalents balance, reconciles to the total cash and cash equivalents balance at the end of the fiscal year.

The notes to the financial statements further explain certain information in the financial statements and provide more detailed data. The statements are followed by required supplemental information and combining schedules.

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
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Management's Discussion and Analysis

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(Unaudited)

FINANCIAL HIGHLIGHTS

Summarized Balance Sheets

(In thousands)	March 31	
	2016	2015
Current assets	\$ 82,350	\$ 69,167
Restricted assets	53,086	45,950
Capital assets, net	610,676	624,293
Deferred outflows of resources from pensions	7,352	-
Total assets and deferred outflows of resources	\$ 753,464	\$ 739,410
Current liabilities	\$ 52,307	\$ 43,602
Noncurrent liabilities	317,978	297,390
Total liabilities	370,285	340,992
Net position:		
Net investment in capital assets	466,460	484,013
Restricted	46,172	39,731
Unrestricted	(129,453)	(125,326)
Total net position	383,179	398,418
Total liabilities and net position	\$ 753,464	\$ 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 \$129.5 million and \$125.3 million at March 31, 2016 and 2015 results primarily from the accrual of postemployment benefits other than pensions required by GASB Statement No. 45. As a result of the Authority's fiscal 2016 activities, March 31, 2016 net position decreased \$15.2 million (3.8%) from March 31, 2015.

Current assets increased \$13.2 million 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.

Bus capital expenditures included in accounts payable at year end resulted in an increase in current liabilities of \$8.7 million at March 31, 2016 compared to 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, 2016 and 2015
(Unaudited)

Summarized Statements of Revenues, Expenses and Changes in Net Position

(in thousands)	Years ended March 31	
	2016	2015
Operating revenues:		
Fares	\$ 37,506	\$ 37,398
Concessions and commissions	27,813	28,509
Rental income	17,052	16,412
Airport fees and services	16,354	17,643
Other operating revenues	4,684	6,564
Total operating revenues	<u>103,409</u>	<u>106,526</u>
Operating expenses:		
Salaries and employee benefits	135,823	133,950
Other postemployment benefits	17,415	12,988
Depreciation	50,051	54,510
Maintenance and repairs	19,347	19,884
Transit fuel and power	5,137	6,764
Utilities	4,254	5,285
Insurance and injuries	3,725	4,388
Other operating expenses	15,380	14,547
Total operating expenses	<u>251,132</u>	<u>252,316</u>
Operating loss	(147,723)	(145,790)
Non-operating revenues, net	<u>107,105</u>	<u>99,928</u>
Change in net position before capital contributions and special item	(40,618)	(45,862)
Capital contributions	26,890	17,397
Special item - property disposition	-	(12,981)
Change in net position	<u>(13,728)</u>	<u>(41,446)</u>
Net position - beginning of year	398,418	439,864
Cumulative effect of restatement	(1,511)	-
Net position - beginning, as restated	<u>396,907</u>	<u>439,864</u>
Net position - end of year	<u>\$ 383,179</u>	<u>\$ 398,418</u>

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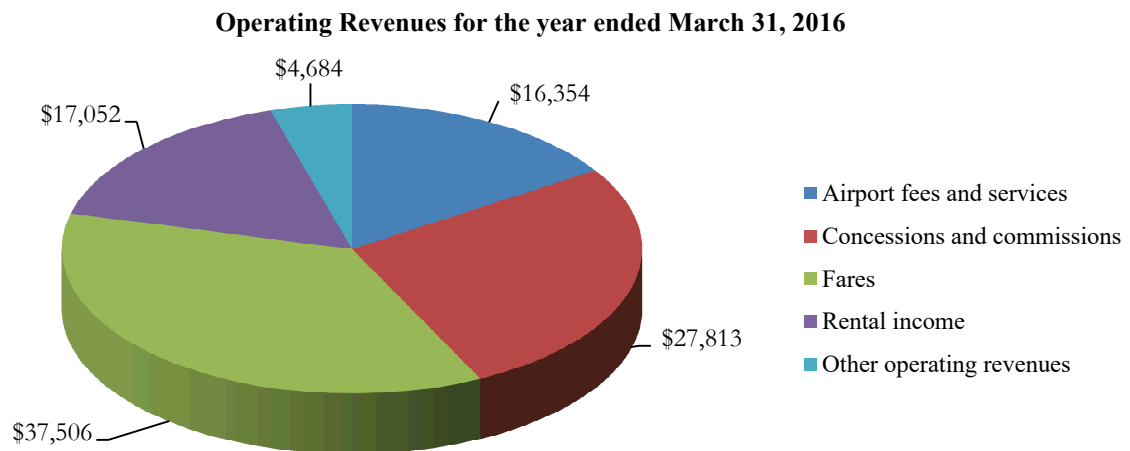
Management's Discussion and Analysis

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

Summary of Revenues, Expenses and Changes in Net Position

March 31, 2016 vs. March 31, 2015

The Authority ended 2016 with total net position of \$383.2 million compared to \$398.4 in 2015.



Significant items affecting the revenues, expenses and changes in net position are as follows:

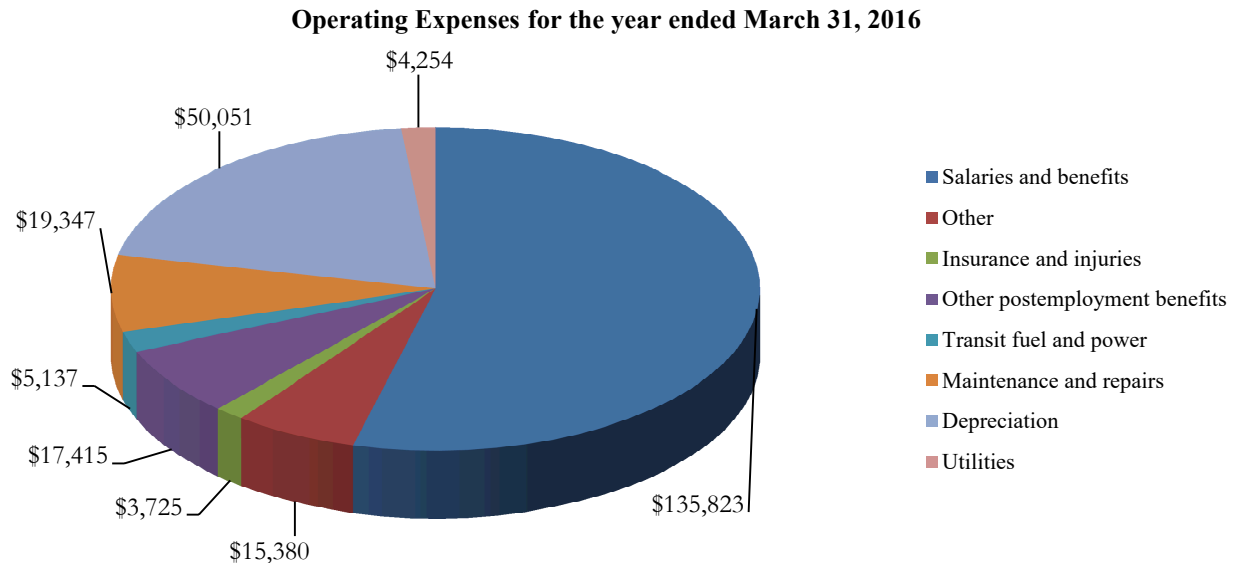
Authority-wide operating revenues decreased \$3.1 million, or 2.9%, from \$106.5 million to \$103.4 million.

- Metro operating revenues remained constant as consistent core ridership was partially offset by a slight decrease in university pass revenue.
- NFTA operating revenues decreased 5.0%, from \$68.4 million to \$65.0 million due to the following:
 - The transfer of property to Erie Canal Harbor Development Corporation in fiscal 2015, which included a 1,000 slip boat marina, resulted in a loss of \$1.3 million in boat harbor fees in 2016.
 - Concessions and commissions were \$0.7 million lower than 2015 due to decreased Buffalo Niagara International Airport (BNIA) parking revenue attributable to the weak Canadian dollar, as approximately 40% of BNIA passenger traffic originates from the Canadian market.
 - Rental income increased \$0.6 million, or 3.9%, primarily resulting from recognition of a 25% holdover rental rate premium as negotiations continue with transportation center tenants.
 - Airport fees and services were \$1.3 million, or 7.3%, lower than 2015 as decreased BNIA direct landing area expenses resulted in lower compensatory airline billings. Also, as part of the negotiated five year use and lease agreement with signatory airlines, a capped reimbursement for Niagara Falls International Airport's (NFIA) net deficit (BNIA signatory airlines previously reimbursed NFIA for 50% of NFIA's net deficit) contributed \$0.4 million to the decrease.

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Operating expenses decreased 0.5% from \$252.3 million to \$251.1 million.

- Metro operating expenses increased \$7.2 million, or 4.2% from \$169.0 million to \$176.2 million due to the following:
 - Salaries and employee benefits increased \$7.7 million, or 7.6%, due to higher health insurance, workers' compensation and overtime costs, along with recognized higher salaries based on the status of continued labor negotiations with the Amalgamated Transit Union (Local 1342).
 - 2016 includes \$14.1 million of postemployment health insurance costs, an increase of \$3.2 million compared to 2015.
 - Depreciation expense, which varies from year to year based on the timing of asset purchases and estimated useful lives, decreased \$2.9 million, or 10.1%, in fiscal 2016.
 - Maintenance and repairs increased \$0.4 million, or 4.9%, resulting from higher revenue vehicle maintenance due to aging parts and expired warranties, and increased facility maintenance and rail escalator repair costs.
 - Transit fuel and power costs declined \$1.6 million, or 24.1%, due to lower diesel, gasoline and rail traction costs.
 - Utilities decreased \$0.3 million due to lower electric and gas rates.
 - Insurance and injuries decreased \$0.6 million, or 18.1%, due to lower reserve appropriations as a result of new and pending litigated claims in 2016.
 - Other operating expenses increased \$0.9 million, or 30.5%, primarily due to increases in bad debt and safety and security expenses.

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
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- NFTA operating expenses decreased \$8.4 million, or 10.0%, from \$83.3 million to \$74.9 million due to the following:
 - Salaries and employee benefits decreased \$5.8 million, or 17.8%, due to the termination of the Authority's operations at the boat harbor, as well as lower overtime and workers' compensation and pension costs resulting from reserve adjustments based on actuarial reports and New York State pension billings.
 - Depreciation expense, which varies from year to year based on the timing of asset purchases and estimated useful lives, decreased \$1.5 million, or 6.0%.
 - 2016 includes \$3.3 million in postemployment benefit expenses, an increase of \$1.3 million or 61.3% from fiscal year 2015.
 - Maintenance and repairs decreased \$1.0 million, or 8.7%, due to lower BNIA snowplowing and automotive costs.
 - Utilities decreased \$0.7 million, or 19.7%, due to lower electric and gas rates.

The net result of the above was an operating loss of \$147.7 million in fiscal 2016 compared to \$145.8 million in fiscal 2015.

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

Capital contributions increased 54.6% from \$17.4 million in 2015 to \$26.9 million in fiscal 2016 primarily due to higher grant funds related to increased drawdowns of FTA, FAA, NYSDOT and other miscellaneous grants 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 \$610.7 million, representing a decrease of 2.2% in fiscal 2016, as depreciation and dispositions continue to outpace annual investment in capital. The Authority uses its capital assets primarily to provide services to the public. Significant components of capital assets include a Light Rail Rapid Transit (LRRT) system and BNIA.

Current year depreciation and asset disposals exceeded capital asset additions by \$13.6 million in fiscal 2016, while long-term debt and related payables increased \$3.9 million, net, compared to 2015, resulting in a decrease in net investment in capital assets of \$17.5 million at March 31, 2016 compared to March 31, 2015.

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Noteworthy capital asset additions and disposals for fiscal year 2016 were:

- NFTA additions included \$2.7 million for the Airport Rescue and Fire Fighting (ARFF) facility at BNIA, as well as \$1.7 million in energy saving improvements and \$1.1 million in BNIA terminal holdroom seating.
- Metro additions included \$7.9 million for twenty compressed natural gas (CNG) buses, \$5.8 million and \$2.7 million for the new CNG fueling station and the ongoing mid-life railcar rebuild project, respectively. In addition, 30 fully depreciated buses were disposed in 2016.

DEBT ADMINISTRATION

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.

OPERATIONS, ACCOMPLISHMENTS, AND OUTLOOK FOR THE AUTHORITY

Surface Transportation

Metro bus and rail is the Authority's largest strategic business unit with over 1,100 employees. Metro provides bus, light rail, and ADA paratransit services to Erie and Niagara Counties in New York State using 308 buses, 27 light-rail cars, and 74 demand response vehicles to serve over 25 million transit passengers each year. The NFTA-Metro service area encompasses a bi-county area of about 1,094 square miles and a population of 1,135,667 (American Community Survey 5-Year Estimates), including an urbanized area of about 380 square miles and a population of 936,108 (American Community Survey 5-Year Estimates).

Based on a 2012 study conducted by the Greater Buffalo-Niagara Regional Transportation Council (GBNRTC), the majority of the Authority's transit riders are transit dependent. 82% of riders do not have access to a vehicle and 55% of riders do not have valid drivers' licenses. Furthermore, 14% of riders surveyed in the region were unemployed. The survey found that Metro Surface Transportation System primarily serves people with lower incomes. On average 90% of riders were from households with an annual income of less than \$50,000 and that 37% of riders were from households making less than \$10,000 annually.

Approximately 23% of Metro's revenues are derived from fare collection and advertising, while 77% are from outside operating and capital assistance. New York State is the Authority's largest investor providing 47% of operating and capital assistance while 34% comes from local sources and 19% from the federal government. Any changes in these funding sources can have a significant impact on Authority operations and service.

As a result, as we prepared the update to the five year capital and operating plan for fiscal years 2017 - 2021, it remained clear that the Authority, specifically the Surface Transportation Division, will need approximately \$4 to \$8 million a year in additional net income in order to be sustainable without dramatically impacting operations and/or our fare structure.

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The light rail system, which operates along a 6.4 mile corridor in the City of Buffalo, has begun to see the first significant employment, market-rate and affordable housing, education, and health care development since the Metro Rail was built about 30 years ago. The Buffalo Niagara Medical Campus (BNMC), a consortium of the region's top health care, education, and research institutions located on a 120-acre site adjacent to downtown employs more than 12,000 people currently, and with 17,000 employees at the BNMC expected by 2017 due to the completion of several major projects at the campus, ridership on the light rail system is projected to grow. In addition, increased infill, higher-density, mixed use development has been built in the Town of Amherst. As a result, Metro and GBNRTC are conducting an Alternatives Analysis to link all origins and destinations impacted by new developments through transit.

As part of our Blueprint for the Future, in addition to stabilizing government assistance, our strategic plans concentrate on 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 newly established Citizens Advisory Committee for Public Transportation, developing our workforce, and growing locally generated revenue through public-private partnerships such as transit-oriented development.

A Transit Intelligent Transportation System (ITS) strategic plan has been drafted that will guide the implementation of projects for the next 2 to 4 years. In fiscal 2016, Metro continued work on several key innovative projects that will positively impact public transportation in the region and spur economic development. The Niagara Street Corridor Project will create a comprehensive urban transit corridor in the City of Buffalo that will improve Metro bus service, advance the FTA's livability standards and act as a model for future corridors in the Metro service area and throughout the United States. The project, which goes from Niagara Square in downtown Buffalo to Niagara and Ontario Streets, focuses on a high-demand urban transit corridor which presents real opportunity for neighborhood revitalization, transit-oriented development, and improved livability for local citizens. Final products of the project include five new 40-foot CNG buses, a compact neighborhood transit center and park-and-ride with bus holding spaces near prime access points for six bus routes, traffic signal prioritization equipment to enhance bus flow and timing, and new bus shelters with solar panels and next bus notification technology.

Metro is also finalizing an alternatives study for the Amherst-Buffalo Corridor, which includes NFTA/Metro's highest ridership levels, to ensure recent economic development in the region has adequate infrastructure to address increased transportation needs. The Amherst-Buffalo Corridor would connect the current Metro light rail system in Buffalo to the State University of New York at Buffalo's (UB) 1,100 acre North Campus in Amherst. This analysis is viewed as the first step for Metro to make informed decisions about providing transit options for a growing ridership and could lead to a project to spur economic and transit-oriented development.

In addition, Metro continues to be engaged in the One Region Forward initiative. One Region Forward is a broad-based, collaborative effort to promote more sustainable forms of development in Erie and Niagara counties (the Buffalo Niagara Region) in land use, transportation, housing, energy and climate, access to food, and more. The One Region Forward Steering Committee which consists of Metropolitan Planning Organization members and strategic private-sector partners adopted the Regional Plan for Sustainable Development in December 2014. The Implementation Council has jointly applied for grants and continues to coordinate work to improve mobility, build more efficient land use patterns, strengthen existing infrastructure, and grow the economy.

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

Looking at infrastructure, Metro has completed construction of a new CNG fueling station and modification of the adjacent Frontier Bus Garage to allow for storage and maintenance of new CNG-fueled vehicles. The CNG fueling station is servicing 20 new CNG-fueled 40-foot transit buses, 10 new paratransit vehicles, and 2 MV-1 supervisor vehicles. An additional 24 new CNG-fueled 40-foot transit buses will be commissioned by the end of the 2016 summer with plans to purchase dozens more over the next 3 to 4 years. CNG-fueled vehicles will lower greenhouse gas emissions of the fleet and save millions in fuel costs over the life of the vehicles. The Light Rail Mid-life Rebuild project, where we are rehabilitating all 27 of our railcars that have been in service for over 25 years, and extends the life of the fleet for another 20 years, continues to progress and 12 rebuilt railcars are currently in revenue service. These improvements are being accomplished in New York State, adding to the State's economic development.

Aviation

BNIA, the Authority's second largest strategic business unit, serves over 4.6 million passengers, marking its eleventh straight year of that level of passengers. To accommodate growth, BNIA's Long-Term Lot B was recently expanded to accommodate an additional 988 cars.

BNIA replaced 2,322 hold room seats that were over 18 years old with new seats that are wider, provide more leg room, and provide new amenities such as cup holders and access to power for cell phone and laptop charging.

BNIA also continues progress on the \$53.8 million noise mitigation projects that will continue for the next year. These projects are fully funded by the FAA, New York State and Passenger Facility Charges.

In June 2016, two new direct, non-stop air services will commence. Southwest Airlines will fly direct between BNIA and Denver International Airport (DEN) once a week and JetBlue will fly direct between BNIA and Los Angeles International Airport (LAX) daily. Both new air services mark the first time there will be direct, non-stop air service between the cities.

Located just five miles from Niagara Falls, the Niagara Falls International Airport (NFIA) has been a catalyst for economic development. Since the completion of the new terminal building in 2009, the number of enplanements has grown significantly. This resulted in a 9.6% increase of passengers from fiscal 2014 to fiscal 2015 and a 12.2% increase from 2015 to 2016. Overall, the aviation division continues to work on ways to increase revenues and attract more air service to NFIA.

The recently completed draft master plan document identifies the infrastructure and financing necessary to meet the increased operational demands over the next 20 years at NFIA. In addition, the project built a Geographic Information System (GIS) for airport projects and created a Dynamic Analysis Tool that models the impact of changing economic conditions on enplanements and infrastructure needs. The goal for the project is to have airport development strike a balance between social, economic and environmental needs for the surrounding community. Additionally, an overall aviation strategic plan was completed in February 2016 that considers the future growth and positioning of both BNIA and NFIA. This will help shape the direction of the aviation system as a whole.

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

Management's Discussion and Analysis

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

Property Development

The property development division serves as the Authority-wide provider of real estate services, manages approximately 1,800 acres of property throughout Erie and Niagara counties and is responsible for the Authority's non-public transportation assets.

As previously indicated, in fiscal 2015 certain waterfront property owned by the Authority, including the largest recreational boat harbor in New York State with over 1,000 slips was transferred to ECHDC. In addition, the Authority is in the process of transferring the remaining 50 acres of waterfront property, commonly referred to as the Port Terminal Complex, to ECHDC for \$3.5 million. It is the direction of the Board of Commissioners to divest properties that are not in concert with the Authority's mission of providing and supporting transportation.

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 Sheet (In thousands)

March 31, 2016

Assets

Current assets:

Cash and cash equivalents	\$ 37,541
Accounts receivable, net of allowance for doubtful accounts of \$926	3,908
Grants receivable	35,105
Materials and supplies inventory	4,735
Prepaid expenses and other	1,061
	<u>82,350</u>

Restricted assets:

Cash and cash equivalents	34,625
Investments	18,461
	<u>53,086</u>

Capital assets, net (Note 5)

610,676

Total assets

663,762

Deferred outflows of resources:

Deferred outflows of resources from pensions	<u>7,352</u>
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Total assets and deferred outflows of resources

\$ 753,464

Liabilities

Current liabilities:

Current portion of long-term debt	\$ 9,636
Accounts payable and accrued expenses	34,192
Other current liabilities	8,479
	<u>52,307</u>

Noncurrent liabilities:

Long-term debt	125,089
Other postemployment benefits	134,549
Estimated liability for self-insured claims	40,032
Net pension liability	4,176
Other noncurrent liabilities	14,132
	<u>317,978</u>

Total liabilities

370,285

Net position

Net investment in capital assets	466,460
Restricted	46,172
Unrestricted	(129,453)
Total net position	<u>383,179</u>

Total liabilities and net position

\$ 753,464

See accompanying notes.

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

Statement of Revenues, Expenses and Change in Net Position (In thousands)

For the year ended March 31, 2016

Operating revenues:

Fares	\$ 37,506
Concessions and commissions	27,813
Rental income	17,052
Airport fees and services	16,354
Other operating revenues	4,684
Total operating revenues	103,409

Operating expenses:

Salaries and employee benefits	135,823
Other postemployment benefits	17,415
Depreciation	50,051
Maintenance and repairs	19,347
Transit fuel and power	5,137
Utilities	4,254
Insurance and injuries	3,725
Other	15,380
Total operating expenses	251,132

Operating loss **(147,723)**

Non-operating revenues (expenses):

Operating assistance	107,147
Passenger facility charges	9,181
Change in fair value of swap agreements	576
Interest expense, net	(4,726)
Airport noise abatement	(2,819)
Other non-operating expense, net	(2,254)
Total non-operating net revenues	107,105

Change in net position before capital contributions **(40,618)**

Capital contributions 26,890

Change in net position **(13,728)**

Net position - beginning of year **398,418**

Cumulative effect of restatement (Note 3) (1,511)

Net position - beginning, as restated 396,907

Net position - end of year **\$ 383,179**

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

Statement of Cash Flows (In thousands)

For the year ended March 31, 2016

Operating activities:

Cash collected from customers	\$ 106,003
Cash paid for employee wages and benefits	(139,123)
Cash paid to vendors and suppliers	(37,964)
Cash paid for insurance and injuries	483
Net operating activities	(70,601)

Non-capital financing activities:

Operating assistance	107,147
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Capital and related financing activities:

Repayments of long-term debt	(9,545)
Proceeds from issuance of long-term debt	3,990
Other liabilities	241
Interest paid	(4,852)
Mortgage recording tax, net	454
Capital grants and contributions	3,201
Additions to capital assets	(36,401)
Construction retainages, net	310
Proceeds from sale of capital assets	70
Passenger facility charges	9,181
Airport noise abatement	(2,819)
Other	(2,274)
Net capital and related financing activities	(38,444)

Investing activities:

Interest income	126
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Net change in cash and cash equivalents (1,772)

Cash and cash equivalents, beginning of year 73,938

Cash and cash equivalents, end of year \$ 72,166

Reconciliation to Balance Sheet

Cash and cash equivalents:

Unrestricted	\$ 37,541
Restricted	34,625
Total cash and cash equivalents	\$ 72,166

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (147,723)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation	50,051
Net pension activity	(4,687)
Other postemployment benefits, net	17,415
Changes in assets and liabilities:	
Receivables	1,785
Materials and supplies inventory	(194)
Prepaid expenses and other	(76)
Accounts payable and accrued expenses	5,422
Other current liabilities	811
Estimated liability for self-insured claims	4,208
Other noncurrent liabilities	2,387
Net cash used for operating activities	\$ (70,601)

See accompanying notes.

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

Notes to Financial Statements

March 31, 2016

(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 as an enterprise fund.

The Niagara Frontier Transit Metro System, Inc. (Metro) was created as part of the Authority 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 New York State (the State), 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's financial statement presentation is prepared in accordance with the provisions established by GASB.

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.

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

Notes to Financial Statements

March 31, 2016

Authority Operations

The Authority operates the following three strategic business centers:

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.

Surface Transportation

Metro Operations

Metro provides the following operations:

- MetroLink, a fixed route scheduled service providing community access to jobs and a paratransit program for disabled persons.
- A seasonal/tourist-oriented service operating replica trolley vehicles over a fixed loop route in the City of Niagara Falls.
- A light rail rapid transit (LRRT) system between downtown Buffalo and the State University of New York at Buffalo.

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.

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.

(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.

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

Notes to Financial Statements

March 31, 2016

(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 provided 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 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.

(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 an obligation of the U.S. Government valued at cost, which approximates fair value.

(g) Bond Costs

Bond issuance costs, with the exception of prepaid insurance, are expensed as incurred. Insurance costs are amortized over the term of the related debt.

(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	12.00
Marine terminals, docks, and wharves	10-40
Equipment and other	2-10

Maintenance and repairs are charged to operations as incurred.

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

Notes to Financial Statements

March 31, 2016

(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, 2016, net advance payments provided by the FHWA for regional construction projects authorized by NITTEC and the FHWA totaled \$5,528,000.

Mortgage Recording Tax Revenue

As required by New York State legislation, the Authority receives a percentage of mortgage recording taxes collected by Erie 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 provides retirement benefits to substantially all employees through various defined benefit retirement plans. The Authority follows GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) to recognize 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 the defined benefit pension plan. The Authority has elected to participate in the New York State and Local Employees' Retirement System (ERS) and New York State and Local Police and Fire Retirement System (PFRS). ERS and PFRS recognize benefit payments when due and payable in accordance with benefit terms; investment assets are reported at fair value. More information on pension activity is included in Note 9.

(l) Postemployment Benefits

In addition to providing pension benefits, the Authority provides health insurance coverage for retired employees. Substantially all employees become eligible for these benefits when they reach normal retirement age with a minimum of ten years of service. Health insurance benefits are provided through an insurance company whose premiums are based on benefits paid during the year.

The Authority records these benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This pronouncement establishes standards for the measurement and recognition of other postemployment benefits (OPEB) expense and related liabilities and disclosures (Note 10).

(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).

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

Notes to Financial Statements

March 31, 2016

(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 the 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 54% of total revenue for the year ended March 31, 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.

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

Notes to Financial Statements

March 31, 2016

(q) Derivative Instruments

The Authority records derivative instruments in accordance with the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB 53 is that certain derivative instruments are reported at fair value in the financial statements. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. Alternatively, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

As of March 31, 2016, the negative fair values of all investment and ineffective derivative instruments totaled \$4,675,000 and are recorded as other noncurrent liabilities in the balance sheet. Negative fair value decreases of \$576,000 for 2016 are recorded as non-operating revenues in the statement of revenues, expenses and change in net position (Note 6).

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, 2011 through August 31, 2014. The Authority exercised its right to extend the contract for two additional one year periods. The contract is considered a normal purchase contract and is not subject to the requirements of GASB 53.

(r) 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 \$3,877,000 for GBNRTC and NITTEC during fiscal 2016.

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

Notes to Financial Statements

March 31, 2016

(3) Change in Accounting Principle

Effective April 1, 2015, the Authority adopted GASB 68 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements address accounting and financial reporting for the pension provided to Authority employees and administered by ERS and PFRS. The statements also require various note disclosures (Note 9) and required supplementary information. As a result, beginning of year net position has been restated as follows (in thousands):

Net position previously reported, April 1, 2015	\$ 398,418
Net pension liability	(8,760)
Deferred outflows of resources for contributions made subsequent to the measurement date	<u>7,249</u>
Net position as restated	<u>\$ 396,907</u>

(4) Cash Deposits and Investments

Custodial Credit Risk

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, 2016, none of the Authority's bank deposits were exposed to custodial credit risk.

The following describes the Authority's policies related to deposit and investment risk:

The Authority has a written investment policy applicable to each of its cash, cash equivalents, and investment accounts 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.

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

Notes to Financial Statements

March 31, 2016

(5) Capital Assets

(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

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

Notes to Financial Statements

March 31, 2016

(6) Long-Term Debt

(a) Long-term Obligations (in thousands)

(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% (including unamortized premium of \$6,673)	\$ 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% (including unamortized premium of \$620)	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	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	4,925
(3) New York State, non-interest bearing	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	1,093
(5) Environmental Facilities Corporation (EFC) maturing January 15, 2020 with variable annual principal payments, bearing interest at 5.552% to 5.742%, offset by a variable refunding interest credit provided by EFC (NYS EFC Series 2011A)	965
(6) Capital leases, monthly payments with fixed interest rate at 2.91% maturing in 2025, secured by related equipment	3,890
(7) Capital lease, monthly payments with fixed interest rate of 4.27%, maturing in 2020, secured by related equipment	1,115
(8) Capital lease, monthly payments with fixed interest rate of 7.75%, maturing in 2032, secured by related equipment	3,902
(9) Capital lease, monthly payments with fixed interest rate of 2.57%, maturing in 2022, secured by related equipment	2,072
	<hr/>
	134,725
Less current portion	9,636
	<hr/>
	\$ 125,089

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

Notes to Financial Statements

March 31, 2016

The following is a description of the Authority's long-term debt:

- (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 2032 through 2036 due to the uncertainty of repayment.

The Airport Revenue Bonds from 2014, 2004, and EFC Series 2000 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 year ended March 31, 2016 were as follows (in thousands):

Balance, beginning of year	\$	140,280
Proceeds from issuance of debt		3,990
Repayment of long-term debt, net of premium amortization		<u>(9,545)</u>
Balance, end of year		134,725
Less current portion		<u>9,636</u>
Noncurrent portion	\$	<u><u>125,089</u></u>

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

Notes to Financial Statements

March 31, 2016

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

	Loans and Capital Leases		Serial Bonds		
			Unamortized		
	Principal	Interest	Principal	Premium	Interest
Years ending March 31,					
2017	\$ 1,321	\$ 541	\$ 8,315	\$ 1,155	\$ 4,856
2018	1,380	489	8,500	1,021	4,637
2019	1,441	434	8,995	937	4,198
2020	1,303	378	9,180	826	3,943
2021	890	338	9,555	710	3,505
2022-2026	3,556	1,213	42,700	2,246	11,455
2027-2031	1,509	575	24,735	398	3,068
2032-2036	4,052	47	-	-	-
	<u>\$ 15,452</u>	<u>\$ 4,015</u>	<u>\$ 111,980</u>	<u>\$ 7,293</u>	<u>\$ 35,662</u>

At March 31, 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, 2016, the unfavorable basis variance totals \$2,356,000.

The Series 2004 Bonds were issued to refund the Authority's outstanding Airport Revenue Bonds, Series 1994A and 1994C, which, together with the Authority's interest rate swaps entered into with respect to the Series 2004 Bonds, are expected to achieve debt service savings for the Authority.

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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, 2016, the fair value of the Series 2004A and 2004C interest rate swaps was a negative fair value of \$4,059,000 and \$616,000, 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 (SIM) 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.

(7) Passenger Facility Charges

In 1992, the Federal Aviation Administration (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 \$9,181,000 for the year ended March 31, 2016.

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(8) Operating 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 year ended March 31, 2016 was as follows (in thousands):

Metro:

FTA:

Section 5307 and 5311 assistance	\$ 19,763
Other	68
Total FTA	<u>19,831</u>

State:

Statewide transit operating assistance program	44,748
Section 18b assistance	4,100
Section 5307 capital maintenance match	2,462
Total State	<u>51,310</u>

Erie County:

88(c) - general	2,161
Mortgage recording tax (section 88a)	8,092
Section 18b matching funds	3,657
Sales tax receipts	19,507
Total Erie County	<u>33,417</u>

Niagara County:

Mortgage recording tax	1,274
Section 18b matching funds	443
Total Niagara County	<u>1,717</u>

Buffalo and Fort Erie Public Bridge Authority

200
106,475

NFTA:

Department of Homeland Security	672
Total	<u>\$ 107,147</u>

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(9) Pensions

(a) New York State Retirement System

The Authority participates in ERS and PFRS (the Systems). The Systems 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 the 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 an automatic cost of living adjustment. 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 2016, rates ranged from 10.5% - 25.2% for ERS and 6.4% - 25.1% for PFRS.

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, 2016, \$6,670,000 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, 2016, the Authority reported a liability of \$3,720,000 for its proportionate share of the ERS and PFRS net pension liability.

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The net pension liability was measured as of March 31, 2015, and the total pension liability was determined by an actuarial valuation as of April 1, 2014. The Authority's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS' and PFRS' total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2015 measurement date, the Authority's proportion was 0.0881407% for ERS and 0.2697875% for PFRS.

For the year ended March 31, 2016, the Authority recognized ERS and PFRS pension expense of \$4,517,000. At March 31, 2016, the Authority reported net deferred outflows of resources as follows:

(in thousands)	ERS		PFRS	
	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 year ending March 31, 2017. 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,	Net Deferred Outflows of Resources
2017	\$ 334
2018	334
2019	334
2020	334
2021	11
	\$ 1,347

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Actuarial Assumptions

The actuarial assumptions used in the April 1, 2014 valuation, with update procedures used to roll forward the total pension liability to March 31, 2015, were based on the results of an actuarial experience study for the period April 1, 2005 to March 31, 2010. These assumptions are:

Inflation - 2.7%

Salary increases - 4.9% (ERS), 6.0% (PFRS)

Investment rate of return - 7.5% compounded annually, net of investment expense, including inflation

Mortality - Based on ERS and PFRS experience from April 1, 2005 - March 31, 2010 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014

Discount rate - 7.5%

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

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	2%	4.0%
Bonds and mortgages	18%	4.0%
Short-term	2%	2.3%
Other	9%	6.8%-8.6%
	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.

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The following presents the Authority's proportionate share of its net pension liability for ERS and PFRS calculated using the discount rate of 7.5% and the impact of using a discount rate that is 1% lower and 1% higher:

(in thousands)	1% Lower (6.50%)	Current (7.50%)	1% Higher (8.50%)
Authority's ERS net pension liability (asset)	\$ 19,847	\$ 2,978	\$ (11,264)
Authority's PFRS net pension liability (asset)	\$ 9,888	\$ 742	\$ (6,921)

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

The Niagara Frontier Transit Metro System, Inc. Retirement Plan (Metro Plan) is a single-employer defined benefit pension plan covering certain full-time non-union employees previously employed by the Niagara Frontier Transit Metro System, Inc. 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 March 31, 2015, the following employees were covered by the Metro Plan:

Retired	50
Beneficiaries	14
Terminated vested	22

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 \$20,000 in 2015, \$73,000 in 2014, and \$31,000 in 2013.

Net Pension Liability

The net pension liability was measured as of March 31, 2015 based on an actuarial valuation as of April 1, 2014. Actuarial assumptions applied to all periods included in the measurement are as follows:

Actuarial Cost Method - Individual Entry-Age

Salary increases - Not applicable

Mortality - RP-2014 Mortality Table with separate rates for males and females and separate rates for employees and annuitants

Rate of Return on Plan Assets - 5.77%

Discount Rate - 5.77%. The long-term expected rate of return on pension plan investments is 5.77% and the municipal bond rate is 3.38%. 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 5.77%.

Asset Valuation - Market Value

Assumed Retirement Age - Normal retirement age or the age on the measurement date if greater

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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:			
Service cost	-	-	-
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)

The impact of using a discount rate that is 1% lower (4.77%) than the current rate would result in a net pension liability of \$840,000 and at 1% higher (6.77%) would result in a net pension liability of \$120,000.

(c) 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, 2016 related past service costs totaling \$2,787,000 are included in other noncurrent liabilities.

(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 signed in 1993, 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.

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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 statement of revenues, expenses and change in net position, pursuant to the CBA, totaled \$5,300,000 for 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.

(10) Postemployment Benefits

Postemployment Health Care

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 50% of the medical insurance premiums while certain management employees hired prior to February 2004 are provided with continuation of full medical coverage.

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.

GASB 45 requires the recognition of 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 statement 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.

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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, 2016 (in thousands):

Annual required contribution		
Normal cost	\$	9,521
Amortization of UAAL		<u>14,070</u>
Annual required contribution		<u>23,591</u>
Interest on OPEB obligation		5,436
Adjustment to ARC		<u>(7,417)</u>
Annual OPEB cost		<u>21,610</u>
Employer contributions		<u>(4,689)</u>
Increase in net OPEB obligation		16,921
Net OPEB obligation, beginning of year		<u>120,818</u>
Net OPEB obligation, end of year	\$	<u>137,739</u>

The Authority's total annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the years ended March 31, 2014 through March 31, 2016 were (in thousands):

March 31,	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 21,610	21.70%	\$ 137,739
2015	\$ 16,391	24.45%	\$ 120,818

The actuarial analysis supporting the GASB 45 obligation for 2016 was completed using an interim valuation. The total unfunded actuarial accrued liability (UAAL) for future benefits was \$64,219,000 for the Authority and \$195,435,000 for Metro. These projections are based on the April 1, 2014 census data, claims information and the impact of healthcare reform. The covered payroll (annual payroll of active employees covered by the plan) was \$96,717,000 and the ratio of the UAAL to the covered payroll was 268.47%.

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.

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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 and prescription drug cost trend is estimated at 7.75% and 11.00% respectively next year, both ultimately declining to 3.886% in year 2076 and remaining level thereafter
- Actuarial cost method used is Projected Unit Credit
- Discount rate is 4.50%
- Amortization method is level dollar method, open
- RP-2014 Mortality Table for annuitants and non-annuitants with projected mortality improvements using Scale MP-2014, with a blue collar adjustment

Postemployment Stipends

As of March 31, 2016, there are 172 retirees within Metro who retired prior to January 1, 2004. Each retiree is provided with a cash stipend equivalent to the single medical premium cost and, if enrolled in Medicare, the retiree also is provided with full Medicare reimbursement. The retiree has the option of any combination of cash stipend and/or health insurance continuation.

Health care benefits where the recipient has the option to receive cash stipends in lieu of coverage are treated as pension benefits. The Authority's annual pension cost and net pension obligation (asset) related to such stipends was (in thousands):

Annual required contribution	\$ 2,588
Interest on net pension cost	(165)
Adjustment to ARC	404
Annual pension cost	2,827
Employer contributions	(2,333)
Decrease in net pension asset	494
Net pension asset, beginning of year	(3,684)
Net pension asset, end of year	\$ (3,190)

The actuarial accrued liability at March 31, 2016 was \$21,515,000, all of which is unfunded. The net pension asset of \$3,190,000 as of March 31, 2016, has been recorded as a net noncurrent liability on the statement of net position as other postemployment benefits. The current policy is to fund on the "pay as you go" basis.

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

- Healthcare cost trend is estimated at 7.50% next year, ultimately declining to 3.886% in year 2075 for pre-age 65; 6.0% next year ultimately declining to 3.886% in 2075 for post-age 65
- Actuarial cost method used is Projected Unit Credit
- Discount rate is 4.5%
- Amortization method is level dollar method over average life expectancy
- RP-2014 Mortality Table for Annuitants with projected mortality improvements using Scale MP-2014 on a generational basis

(11) Leases

A substantial 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 \$59,900,000 in 2016, which includes guaranteed minimum rentals of \$22,138,000 during 2016.

Fixed-term operating leases in effect at March 31, 2016 are expected to yield future minimum rentals as follows:

2017	\$	21,222
2018		17,767
2019		10,033
2020		3,727
2021		3,659
2022 - 2026		14,181
2027 - 2031		4,522
2032 - 2036		1,044
2037 - 2041		893
2042 - 2046		225
	<u>\$</u>	<u>77,273</u>

(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.

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(b) Self-Insured Claims

The Authority assumes the liability for most risks including, but not limited to, workers compensation, 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, 2016 were as follows (in thousands):

Liability, beginning of year	\$ 35,824
Current year claims and change in estimate	12,624
Claim payments	<u>(8,416)</u>
Liability, end of year	<u>\$ 40,032</u>

(c) Project Commitments

As of March 31, 2016, the Authority has commenced several projects including:

- BNIA noise abatement program estimated at \$54,306,000 of which \$51,244,000 was expended (expenditures are classified as non-operating expenses in the statement of revenues, expenses and change in net position)
- Metro 24 Transit buses estimated at \$13,749,000 of which \$0 was expended
- Rail car refurbishment estimated at \$45,000,000 of which \$32,005,000 was expended
- BNIA Aircraft Rescue and Fire Fighting Facility estimated at \$10,988,000 of which \$3,369,000 was expended
- Metro (Bus and Rail) fare collection upgrade \$20,271,000 of which \$1,298,000 was expended
- Metro 20 CNG Transit Buses estimated at \$11,354,000 of which \$7,925,000 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.

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(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 Sheet (in thousands)

Assets:	
Current and other	\$ 80,576
Capital assets, net	<u>239,674</u>
Total assets	<u>320,250</u>
Deferred outflows of resources	<u>400</u>
Total assets and deferred outflows of resources	<u>\$ 320,650</u>
Liabilities:	
Current liabilities	\$ 14,423
Long-term liabilities	<u>126,595</u>
Total liabilities	<u>141,018</u>
Net position:	
Net investment in capital assets	114,514
Restricted	42,124
Unrestricted	<u>22,994</u>
Total net position	<u>179,632</u>
Total liabilities and net position	<u>\$ 320,650</u>

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(b) BNIA Condensed Statement of Revenues, Expenses and Change in Net Position (in thousands)

Operating revenues:	
Concessions and commissions	\$ 26,005
Rental income	11,170
Airport fees and services	16,183
Other	3,552
Total operating revenues	56,910
Operating expenses	
Depreciation expense	39,438
	18,570
Operating loss	(1,098)
Non-operating revenues (expenses):	
Passenger facility charges	9,181
Change in fair value of swap agreements	576
Interest expense, net	(3,862)
Airport noise abatement	(2,819)
Other, net	(3,207)
Operating Transfers	(4,250)
Change in net position before capital contributions	(5,479)
Capital contributions	4,894
Change in net position	(585)
Net position - beginning of year	
Cumulative effect of restatement	180,096
	121
Net position - beginning, as restated	180,217
Net position - end of year	
	\$ 179,632

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

Net cash provided by operating activities	
	\$ 32,394
Net cash provided by investing activities	
	118
Net cash used in capital and related financing activities	
	(18,115)
Net change in cash	14,397
Cash, beginning of year	
	40,472
Cash, end of year	
	\$ 54,869

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(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.

Airport revenues:	
Operating revenues	\$ 56,910
Interest income	112
Gross airport revenues	57,022
Operating expenses, excluding depreciation	(39,438)
Net airport revenues	\$ 17,584
Net debt service:	
Principal payable	6,850
Interest payable	5,548
Passenger facility charges	(535)
Net debt service	\$ 11,863
Debt service coverage percentage	148.23%
Minimum percentage requirement	125.00%

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

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

For the year ended March 31, 2016

Other Postemployment Benefits							
Actuarial Valuation Date	Actuarial Value of Assets	Unfunded 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%	

Postemployment Stipends							
Actuarial Valuation Date	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Deficiency of Assets over UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll	
4/1/2011	\$ -	\$ 31,682	\$ (31,682)	0%	\$ -	0.0%	
4/1/2013	\$ -	\$ 26,328	\$ (26,328)	0%	\$ -	0.0%	
4/1/2015	\$ -	\$ 23,602	\$ (23,602)	0%	\$ -	0.0%	

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

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

As of the measurement date of March 31, 2015	ERS	PFRS
Authority's proportion of the net pension liability	0.0881407%	0.2697875%
Authority's proportionate share of the net pension liability	\$ 2,978,000	\$ 742,000
Authority's covered-employee payroll	\$ 24,546,000	\$ 9,124,000
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	12.13%	8.13%
Plan fiduciary net position as a percentage of the total pension liability	97.90%	97.90%

Data prior to 2015 is unavailable.

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

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

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

Data prior to 2015 is unavailable.

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

Additional Information
Combining Balance Sheet (In thousands)

March 31, 2016

	NFTA	BNIA	Metro	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,812	\$ 31,181	\$ 3,548	\$ 37,541
Accounts receivable, net	107	1,503	2,298	3,908
Grants receivable	3,202	583	31,320	35,105
Due to/from affiliate	(11,780)	4,426	7,354	-
Materials and supplies inventory	-	-	4,735	4,735
Prepaid expenses and other	82	759	220	1,061
	<u>(5,577)</u>	<u>38,452</u>	<u>49,475</u>	<u>82,350</u>
Restricted assets:				
Cash and cash equivalents	7,433	23,688	3,504	34,625
Investments	-	18,436	25	18,461
	<u>7,433</u>	<u>42,124</u>	<u>3,529</u>	<u>53,086</u>
Capital assets, net	<u>86,359</u>	<u>239,674</u>	<u>284,643</u>	<u>610,676</u>
Total assets	<u>93,792</u>	<u>281,798</u>	<u>288,172</u>	<u>663,762</u>
Deferred outflows of resources:				
Deferred outflows of resources from pensions	6,717	400	235	7,352
Total assets and deferred outflows of resources	<u>\$ 94,932</u>	<u>\$ 320,650</u>	<u>\$ 337,882</u>	<u>\$ 753,464</u>
Liabilities				
Current liabilities:				
Current portion of long-term debt	\$ 363	\$ 8,572	\$ 701	\$ 9,636
Accounts payable and accrued expenses	11,906	5,726	16,560	34,192
Other current liabilities	5,694	125	2,660	8,479
	<u>17,963</u>	<u>14,423</u>	<u>19,921</u>	<u>52,307</u>
Noncurrent liabilities:				
Long-term debt	5,113	115,088	4,888	125,089
Other postemployment benefits	23,888	3,966	106,695	134,549
Estimated liability for self-insured claims	1,930	2,652	35,450	40,032
Net pension liability	3,365	214	597	4,176
Other noncurrent liabilities	6,670	4,675	2,787	14,132
	<u>40,966</u>	<u>126,595</u>	<u>150,417</u>	<u>317,978</u>
Total liabilities	<u>58,929</u>	<u>141,018</u>	<u>170,338</u>	<u>370,285</u>
Net position				
Net investment in capital assets	75,939	114,514	276,007	466,460
Restricted	1,905	42,124	2,143	46,172
Unrestricted	(41,841)	22,994	(110,606)	(129,453)
Total net position	<u>36,003</u>	<u>179,632</u>	<u>167,544</u>	<u>383,179</u>
Total liabilities and net position	<u>\$ 94,932</u>	<u>\$ 320,650</u>	<u>\$ 337,882</u>	<u>\$ 753,464</u>

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

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

For the year ended March 31, 2016

	NFTA	BNIA	Metro	Total
Operating revenues:				
Fares	\$ -	\$ -	\$ 37,506	\$ 37,506
Concessions and commissions	1,808	26,005	-	27,813
Rental income	5,882	11,170	-	17,052
Airport fees and services	171	16,183	-	16,354
Other operating revenues	203	3,552	929	4,684
Total operating revenues	8,064	56,910	38,435	103,409
Operating expenses:				
Salaries and employee benefits	14,378	12,548	108,897	135,823
Other postemployment benefits	2,610	704	14,101	17,415
Depreciation	5,645	18,570	25,836	50,051
Maintenance and repairs	2,690	7,474	9,183	19,347
Transit fuel and power	-	-	5,137	5,137
Utilities	851	1,965	1,438	4,254
Insurance and injuries	380	408	2,937	3,725
Other	(1,067)	12,596	3,851	15,380
Administration cost reallocation	(8,560)	3,743	4,817	-
Total operating expenses	16,927	58,008	176,197	251,132
Operating loss	(8,863)	(1,098)	(137,762)	(147,723)
Non-operating revenues (expenses):				
Operating assistance	672	-	106,475	107,147
Passenger facility charges	-	9,181	-	9,181
Change in fair value of swap agreements	-	576	-	576
Interest expense, net	(589)	(3,862)	(275)	(4,726)
Airport noise abatement	-	(2,819)	-	(2,819)
Other non-operating expense, net	2,044	(3,207)	(1,091)	(2,254)
Operating transfers	4,250	(4,250)	-	-
Non-operating net revenues (expenses)	6,377	(4,381)	105,109	107,105
Change in net position before capital contributions	(2,486)	(5,479)	(32,653)	(40,618)
Capital contributions	2,240	4,894	19,756	26,890
Change in net position	(246)	(585)	(12,897)	(13,728)
Net position - beginning of year	34,268	180,096	184,054	398,418
Cumulative effect of restatement (Note 3)	1,981	121	(3,613)	(1,511)
Net position - beginning, as restated	36,249	180,217	180,441	396,907
Net position - end of year	\$ 36,003	\$ 179,632	\$ 167,544	\$ 383,179

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, 2016, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements. We have also audited the Authority's internal control over financial reporting as of March 31, 2016, based on *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We have issued our combined report thereon dated June 23, 2016.

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, and for the purpose of expressing 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. 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.

A handwritten signature in blue ink that reads "Sumner & McCormick, LLP". The signature is written in a cursive, flowing style.

June 23, 2016

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 comprises the balance sheet as of March 31, 2016, 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 23, 2016.

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, 2016. 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.


June 23, 2016