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

FINANCIAL STATEMENTS

MARCH 31, 2018 and 2017

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

March 31, 2018 and 2017

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Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Niagara Frontier Transportation Authority

We have audited the accompanying balance sheets of Niagara Frontier Transportation Authority (the Authority) (a component unit of the State of New York), a business-type activity, as of March 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of March 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis (MD&A) on pages i through viii (preceding the financial statements), and other required supplementary information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Additional Information
The additional information on pages 40 through 42 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 28, 2018 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

June 28, 2018

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

March 31, 2018 and 2017

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 28, 2018

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

March 31, 2018 and 2017

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, 2018, 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, 2018, 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 28, 2018

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

Management's Discussion and Analysis

For the Years Ended March 31, 2018, 2017 and 2016
(Unaudited)

This management's discussion and analysis (MD&A) of the Niagara Frontier Transportation Authority (the Authority) provides an introduction and overview to the Authority's financial activities as of and for the years ended March 31, 2018, 2017 and 2016, which should be read in conjunction with the Authority's financial statements and notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Effective April 1, 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the Authority to record its net pension liability and deferred outflows and deferred inflows of resources for certain pensions provided to Authority employees. The cumulative effect on the 2016 statements is a decrease in beginning of year net position totaling $1.5 million.

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Summarized Balance Sheets

(In thousands)	March 31		
	2018	2017	2016
Current assets	$ 81,088	$ 88,518	$ 82,350
Restricted assets	53,407	55,493	53,086
Capital assets, net	612,233	604,208	610,676
Deferred outflows of resources from pensions	15,600	27,005	7,390
Total assets and deferred outflows of resources	$ 762,328	$ 775,224	$ 753,502
Current liabilities	$ 52,147	$ 51,344	$ 52,307
Noncurrent liabilities	366,999	370,143	317,978
Deferred inflows of resources from pensions	2,644	3,139	38
Total liabilities and deferred inflows of resources	421,790	424,626	370,323
Net position:			
Net investment in capital assets	482,077	466,688	466,460
Restricted	48,081	47,866	46,172
Unrestricted	(189,620)	(163,956)	(129,453)
Total net position	340,538	350,598	383,179
Total liabilities, deferred inflows of resources, and net position	$ 762,328	$ 775,224	$ 753,502

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 $189.6 million, $164.0 million, $129.5 million at March 31, 2018, 2017 and 2016 results primarily from the accrual of postemployment benefits other than pensions. As a result of the Authority's activities, March 31, 2018 net position decreased $10.1 million from March 31, 2017 ($7.9 million from 2016).

Current assets decreased $7.4 million from March 31, 2017 to March 31, 2018 primarily due to a decrease in unrestricted cash, partially offset by an increase in accounts receivable. The decrease in current assets is primarily attributable to a decrease in cash from operations and additions of capital assets. Deferred outflows of resources decreased $11.4 million primarily due to changes in assumptions and differences between the projected and actual investment earnings related to certain pension plans.

Current assets increased $6.2 million from March 31, 2016 to March 31, 2017 primarily due to an increase in unrestricted cash and investments, partially offset by a decrease in governmental receivables. Deferred outflows of resources increased $19.6 million primarily due to changes in assumptions and differences between the projected and actual investment earnings related to certain pension plans.

The Authority entered into a $9.3 million capital lease for new buses in fiscal 2018. This new debt, offset by current year principal payments and combined with an increase in other post-employment benefits of $14.2 million, decreases in net pension liability of $9.6 million, and other noncurrent liabilities of $2.4 million, resulted in an overall decrease in noncurrent liabilities of $3.1 million at March 31, 2018 compared to March 31, 2017.

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

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

Management's Discussion and Analysis

For the Years Ended March 31, 2018, 2017 and 2016
(Unaudited)

Summarized Statements of Revenues, Expenses and Changes in Net Position

(in thousands)	Years ended March 31		
	2018	2017	2016
Operating revenues:			
Fares	$ 35,478	$ 36,866	$ 37,506
Concessions and commissions	29,420	28,270	27,813
Rental income	18,039	17,848	17,052
Airport fees and services	18,283	17,190	16,354
Other operating revenues	5,755	5,689	4,684
Total operating revenues	106,975	105,863	103,409
Operating expenses:			
Salaries and employee benefits	146,511	140,110	135,823
Other postemployment benefits	14,238	13,545	17,415
Depreciation	52,741	51,778	50,051
Maintenance and repairs	21,444	20,374	19,347
Transit fuel and power	3,425	3,805	5,137
Utilities	4,623	4,454	4,254
Insurance and injuries	3,947	3,754	3,725
Other operating expenses	16,400	15,749	15,380
Total operating expenses	263,329	253,569	251,132
Operating loss	(156,354)	(147,706)	(147,723)
Non-operating revenues, net	121,931	120,010	107,105
Change in net position before capital contributions and special item	(34,423)	(27,696)	(40,618)
Capital contributions	24,363	19,820	26,890
Change in net position	(10,060)	(7,876)	(13,728)
Net position - beginning of year	350,598	383,179	398,418
Cumulative effect of restatement	-	(24,705)	(1,511)
Net position - beginning, as restated	350,598	358,474	396,907
Net position - end of year	$ 340,538	$ 350,598	$ 383,179

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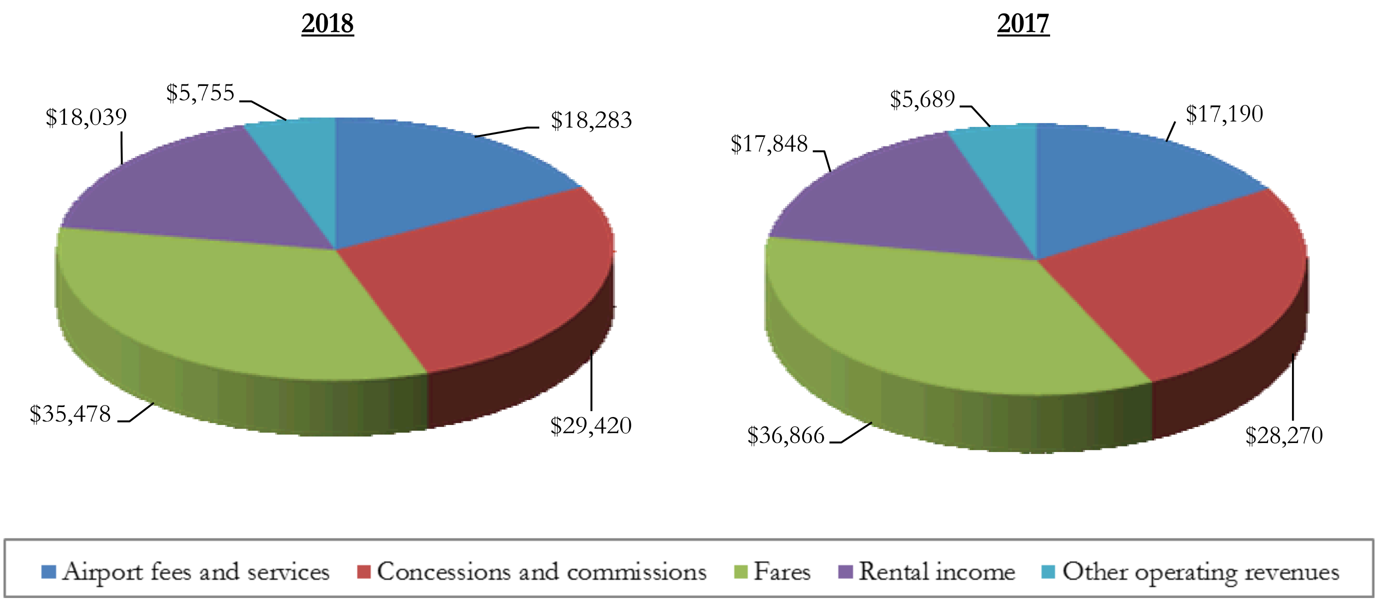
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

The charts below summarize operating revenues by source.



Operating revenues increased $1.1 million, or 1.1%, from 2017 to 2018. Fares decreased $1.4 million, as ridership was down from 2017 levels and individual passenger fares were unchanged. Concessions and commissions in 2018 were $1.2 million higher than 2017, primarily due to an increase in auto rental and parking fees at Buffalo Niagara International Airport (BNIA) and Niagara Falls International Airport (NFIA). Airport fees and services in 2018 were $1.1 million higher than 2017 as increased BNIA direct landing area expenses resulted in higher compensatory airline billings. Other operating revenues were consistent with 2017.

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

NIAGARA FRONTIER TRANSPORTATION AUTHORITY

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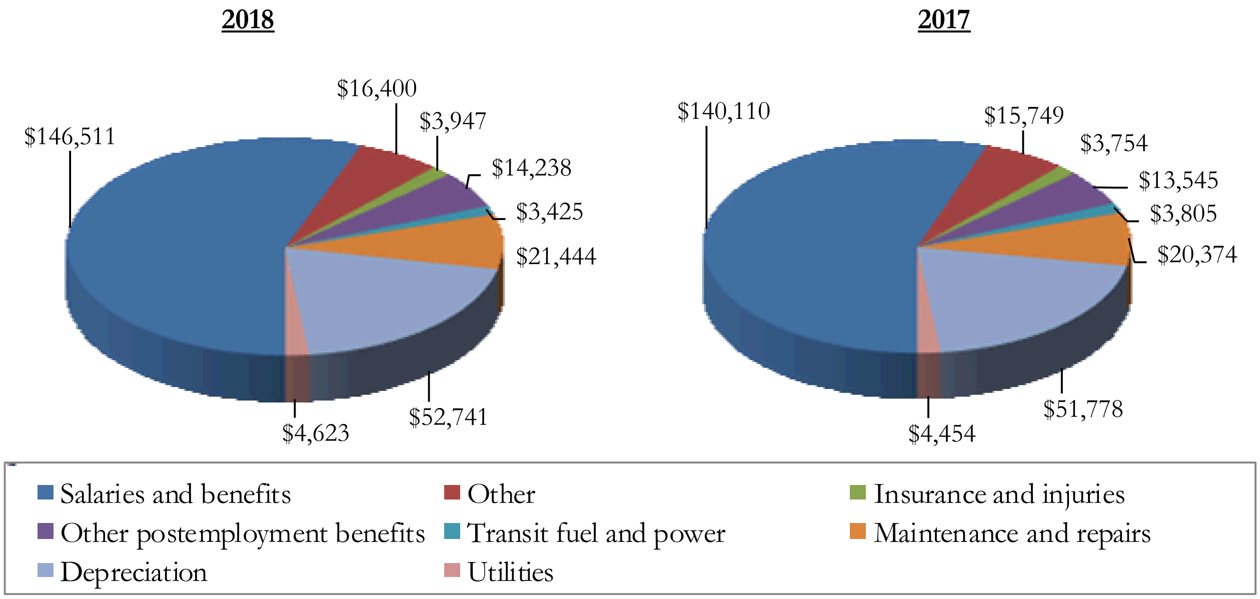
Management's Discussion and Analysis

For the Years Ended March 31, 2018, 2017 and 2016
(Unaudited)

The charts below summarize operating expenses by category.



Operating expenses increased 3.8%, from $253.6 million to $263.3 million from 2017 to 2018. Salaries and employee benefits increased $6.4 million, or 4.6%, primarily due to higher Metro salaries as a collective bargaining agreement with the Amalgamated Transit Union Local 1342, which represents approximately 1,000 Metro employees, was settled during the year as well as higher health insurance, workers' compensation and pension costs across the Authority. Maintenance and repairs increased $1.1 million from 2017 due to higher snowplowing and baggage system maintenance costs at BNIA and increased maintenance projects at the Metropolitan Transportation Center. Depreciation expense, which varies from year to year based on the timing of asset purchases and estimated useful lives, increased by $1.0 million from 2017 to 2018.

Operating expenses increased 1.0%, from $251.1 million to $253.6 million from 2016 to 2017. Salaries and employee benefits increased $4.3 million, or 3.2%, due to higher health insurance, workers' compensation and pension costs. Changes in actuarial assumptions and the transition to self-insured healthcare resulted in an actuarially calculated decrease in other postemployment benefits of $3.9 million from 2016. Depreciation expense increased by $1.7 million from 2016 to 2017.

Net non-operating revenues for 2018 increased $1.9 million compared to 2017, from $120.0 million to $121.9 million, primarily due to a $3.5 million increase in operating assistance, partially offset by a $1.9 million decrease in other non-operating revenues.

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

Capital contributions increased from $19.8 million in 2017 to $24.4 million in 2018, primarily due to the timing of capital projects and revenue vehicle purchases.

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

CAPITAL ASSETS

Net capital assets total $612.2 million at March 31, 2018, representing an increase of 1.3% from March 31, 2017, as investment in capital exceeded depreciation and dispositions by $8.0 million in 2018. Capital asset additions totaling $60.8 million include $13.6 million for twenty-four buses, $4.1 million for the ongoing mid-life railcar rebuild project, $4.7 million for rail station escalator/elevator rehabilitation, $13.9 million for BNIA runway repaving and rehabilitation, and $1.2 million for the completion of the BNIA Airport Rescue and Fire Fighting (ARFF) facility.

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

DEBT ADMINSTRATION

The Authority had $130.2 million in long-term debt at March 31, 2018. This $3.4 million decrease from 2017 primarily results from a new bus capital lease of $9.3 million, offset by debt service payments of $13.2 million. The Authority had $133.6 million in long-term debt at March 31, 2017. This $1.1 million decrease from 2016 primarily results from a new bus capital lease of $10.4 million, offset by debt service payments of $11.6 million.

FACTORS IMPACTING THE AUTHORITY'S FUTURE

Surface Transportation

Approximately 22% of Metro's revenues are derived from fare collection and advertising, while 78% are from outside operating assistance. New York State is the Authority's largest investor providing 48% of operating assistance while 34% comes from local sources and 18% from the federal government. Any changes in these funding sources can have a significant impact on Authority operations.

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

The property surrounding the Metro Rail system has seen significant office, retail, housing and entertainment development in the past few years. The Buffalo Niagara Medical Campus (BNMC), a consortium of the region's top health care, education, and research institutions, is located adjacent to the Allen-Medical Campus station. More than 16,000 people currently work, volunteer or study every day at the BNMC after John R. Oishei Children's Hospital of Buffalo and the University at Buffalo Jacobs School of Medicine moved to the campus in 2017. Because of the increased activity in this part of the city, ridership on the light rail system is projected to grow.

The Authority is currently seeking developers for Authority properties in the Metro Rail corridor in the City of Buffalo. The purpose of the development is to increase the success of neighborhood businesses, add residential connectivity, further enhance access to Metro Rail for residents and visitors, and increase ridership and revenue for Metro.

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

Aviation

Together, BNIA and NFIA served approximately 5 million passengers in 2018 as the only commercial service airports in Erie and Niagara counties. Additionally, the airports are a convenient and less costly option for nearby Canadian travelers. As approximately 40% of BNIA passenger traffic originates from Canada, fluctuations in the exchange rate of the Canadian dollar have an impact on enplanements.

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

A two-year, $80 million passenger terminal and baggage claim expansion project at BNIA is scheduled to begin in 2018. The project will improve overall airport security, expand and modernize the baggage claim area, improve passenger flow to and from the international boarding areas, expand the terminal for additional concessions and amenities, and add new curb space at both ends of the BNIA terminal. Passenger Facility Charges are funding program design and are the planned source for project construction.

CONTACT FOR AUTHORITY'S FINANCIAL MANAGEMENT

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

Balance Sheets (In thousands)

March 31,	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 37,268	$ 50,154
Investments	12,612	12,500
Accounts receivable, net of allowance for doubtful accounts of $513 in 2017	11,937	7,212
Grants receivable	13,344	12,758
Materials and supplies inventory	5,101	4,980
Prepaid expenses and other	826	914
	81,088	88,518
Restricted assets:		
Cash and cash equivalents	26,381	37,775
Investments	27,026	17,718
	53,407	55,493
Capital assets, net (Note 4)	612,233	604,208
Total assets	746,728	748,219
Deferred outflows of resources:		
Deferred outflows of resources related to pensions	15,600	27,005
Total assets and deferred outflows of resources	$ 762,328	$ 775,224
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 13,303	$ 11,321
Accounts payable and accrued expenses	31,460	30,198
Other current liabilities	7,384	9,825
	52,147	51,344
Noncurrent liabilities:		
Long-term debt	116,853	122,254
Other postemployment benefits	165,522	151,284
Estimated liability for self-insured claims	42,556	42,524
Net pension liabilities	33,137	42,743
Other noncurrent liabilities	8,931	11,338
	366,999	370,143
Total liabilities	419,146	421,487
Deferred inflows of resources:		
Deferred inflows of resources related to pensions	2,644	3,139
Net position		
Net investment in capital assets	482,077	466,688
Restricted	48,081	47,866
Unrestricted	(189,620)	(163,956)
Total net position	340,538	350,598
Total liabilities, deferred inflows of resources, and net position	$ 762,328	$ 775,224

See accompanying notes.

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

For the years ended March 31,	2018	2017
Operating revenues:		
Fares	$ 35,478	$ 36,866
Concessions and commissions	29,420	28,270
Rental income	18,039	17,848
Airport fees and services	18,283	17,190
Other operating revenues	5,755	5,689
Total operating revenues	106,975	105,863
Operating expenses:		
Salaries and employee benefits	146,511	140,110
Other postemployment benefits	14,238	13,545
Depreciation	52,741	51,778
Maintenance and repairs	21,444	20,374
Transit fuel and power	3,425	3,805
Utilities	4,623	4,454
Insurance and injuries	3,947	3,754
Other	16,400	15,749
Total operating expenses	263,329	253,569
Operating loss	(156,354)	(147,706)
Non-operating revenues (expenses):		
Government assistance	114,587	111,119
Passenger facility charges	9,755	9,271
Change in fair value of swap agreements	1,192	1,701
Interest expense, net	(4,397)	(4,549)
Airport noise abatement	(291)	(489)
Other non-operating revenues, net	1,085	2,957
Total non-operating net revenues	121,931	120,010
Change in net position before capital contributions	(34,423)	(27,696)
Capital contributions	24,363	19,820
Change in net position	(10,060)	(7,876)
Net position - beginning of year	350,598	358,474
Net position - end of year	$ 340,538	$ 350,598

See accompanying notes.

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

Statements of Cash Flows (In thousands)

For the years ended March 31,	2018	2017
Operating activities:		
Cash collected from customers	$ 102,063	$ 103,193
Cash paid for employee wages and benefits	(144,016)	(137,331)
Cash paid to vendors and suppliers	(47,698)	(53,460)
Cash paid for insurance and injuries	(3,915)	(1,262)
Net operating activities	(93,566)	(88,860)
Non-capital financing activities:		
Government assistance	114,587	111,119
Capital and related financing activities:		
Repayments of long-term debt	(13,218)	(11,628)
Proceeds from issuance of long-term debt	9,799	10,478
Other liabilities	(519)	322
Interest paid	(5,040)	(4,725)
Mortgage recording tax, net	(1,733)	390
Capital grants and contributions	23,777	42,167
Additions to capital assets	(60,766)	(45,723)
Construction retainages, net	778	413
Proceeds from sale of capital assets	5	3,703
Passenger facility charges	9,755	9,271
Airport noise abatement	(291)	(489)
Other	1,080	906
Net capital and related financing activities	(36,373)	5,085
Investing activities:		
Purchase of investments, net	(9,420)	(11,757)
Interest income	492	176
Net investing activities	(8,928)	(11,581)
Net change in cash and cash equivalents	(24,280)	15,763
Cash and cash equivalents, beginning of year	87,929	72,166
Cash and cash equivalents, end of year	$ 63,649	$ 87,929
Reconciliation to Balance Sheet		
Cash and cash equivalents:		
Unrestricted	$ 37,268	$ 50,154
Restricted	26,381	37,775
Total cash and cash equivalents	$ 63,649	$ 87,929
Reconciliation of operating loss to net operating activities:		
Operating loss	$ (156,354)	$ (147,706)
Adjustments to reconcile operating loss to net operating activities:		
Depreciation	52,741	51,778
Net pension activity	1,304	2,339
Other postemployment benefits, net	14,238	13,545
Changes in assets and liabilities:		
Receivables	(4,725)	(3,304)
Materials and supplies inventory	(121)	(245)
Prepaid expenses and other	88	147
Accounts payable and accrued expenses	635	(7,447)
Other current liabilities	(189)	634
Estimated liability for self-insured claims	32	2,492
Other noncurrent liabilities	(1,215)	(1,093)
Net operating activities	$ (93,566)	$ (88,860)

See accompanying notes.

(1) Financial Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Measurement Focus

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

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

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

Authority Operations

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

NFTA Operations

Aviation

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

Property Management

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

Metro Operations

Surface Transportation

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

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

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

The majority of Metro operations employees are members of the Amalgamated Transit Union Local 1342 (ATU). Five other labor unions represent a small percentage of remaining employees. The current ATU contract expires July 31, 2020.

(b) Cash and Cash Equivalents

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

(c) Accounts Receivable

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

(d) Materials and Supplies Inventory

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

(e) Restricted Assets

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

(f) Investments

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

(g) Bond Costs and Premiums

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

(h) Capital Assets

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

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

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

(i) Other Current Liabilities

Advances

The Authority administers the funding of regional transportation improvement projects on behalf of the Federal Highway Administration (FHWA) for the Niagara International Transportation Technology Coalition (NITTEC). At March 31, 2018 and 2017, net advance payments provided by the FHWA for regional construction projects authorized by NITTEC and the FHWA are included in other current liabilities on the accompanying balance sheets and totaled $5,331,000 and $5,850,000, respectively.

Mortgage Recording Tax Revenue

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

(j) Self-Insured Claims

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

(k) Pensions

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

(l) Postemployment Benefits

In addition to providing pension benefits, the Authority provides various health insurance coverage to retired employees (Note 9). Substantially all employees become eligible for these benefits when they reach normal retirement age with a minimum of ten years of service.

(m) Other Noncurrent Liabilities

Other noncurrent liabilities consist primarily of amounts due to the New York State retirement system pursuant to the New York State Pension Contribution Stabilization Program (Note 8) and the fair value of interest rate swap agreements (Note 5).

(n) *Revenue Recognition*

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

The Authority receives operating assistance and capital contributions pursuant to various federal, state and local government contracts and grant agreements. Operating assistance and capital contributions are recorded as revenue based on annual appropriations or when expenditures have been incurred in compliance with grant requirements. Operating assistance and capital contributions represent 53% (52% for 2017) of total revenue for the year ended March 31, 2018. A significant decrease in this funding may negatively impact future operations of the Authority.

(o) *Taxes*

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

(p) *Use of Estimates*

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

(q) *Administrative Services*

In accordance with agreements between the Authority and the New York State Department of Transportation, the Authority functions as the "host agency" for the Greater Buffalo Niagara Regional Transportation Council (GBNRTC), the designated Metropolitan Planning Organization (MPO) for the metro region including Erie and Niagara counties, and NITTEC, a regional traffic operations center. As the host agency for both organizations, the Authority provides certain administrative responsibilities relating to grants management and accounting functions; however, the Authority has no budgetary oversight and no responsibility for operations, deficits or debts. Consequently, the Authority's financial statements do not include the assets, liabilities, revenues or expenses of GBNRTC or NITTEC. The Authority administered reimbursement grants totaling $4,930,000 and $4,515,000 for GBNRTC and NITTEC combined during fiscal 2018 and 2017.

(3) Cash Deposits and Investments

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

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. At March 31, 2018 and 2017, the Authority's bank deposits were fully insured by FDIC or collateralized in accordance with the above requirements.

(4) Capital Assets

(in thousands)	April 1, 2017	Additions	Reclassifications and Disposals	March 31, 2018
Non-depreciable capital assets:				
Land	$ 63,330	$ 248	$ -	**$ 63,578**
Construction in progress	33,510	2,200	-	**35,710**
Total non-depreciable capital assets	96,840	2,448	-	**99,288**
Depreciable capital assets:				
Land improvements	316,997	17,924	-	**334,921**
LRRT system	628,652	9,443	(162)	**637,933**
Airport buildings	275,921	10,760	(1,363)	**285,318**
Metropolitan transportation centers	21,756	-	(23)	**21,733**
Motor buses	152,556	14,521	(2,480)	**164,597**
Equipment, buildings, and other	144,760	5,705	(283)	**150,182**
Total depreciable capital assets	1,540,642	58,353	(4,311)	**1,594,684**
Accumulated depreciation:				
Land improvements	227,684	11,672	-	**239,356**
LRRT system	459,012	13,404	(162)	**472,254**
Airport buildings	136,547	9,142	(1,363)	**144,326**
Metropolitan transportation centers	15,596	435	(18)	**16,013**
Motor buses	94,688	10,576	(2,471)	**102,793**
Equipment, buildings, and other	99,747	7,512	(262)	**106,997**
Total accumulated depreciation	1,033,274	52,741	(4,276)	**1,081,739**
Total depreciable assets, net	507,368	5,612	(35)	**512,945**
	$ 604,208	$ 8,060	$ (35)	**$ 612,233**

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

Notes to Financial Statements

March 31, 2018 and 2017

(in thousands)	April 1, 2016	Additions	Reclassifications and Disposals	March 31, 2017
Non-depreciable capital assets:				
Land	$ 63,018	$ 315	$ (3)	$ 63,330
Construction in progress	43,429	(9,919)	-	33,510
Total non-depreciable capital assets	106,447	(9,604)	(3)	96,840
Depreciable capital assets:				
Land improvements	315,483	2,232	(718)	316,997
LRRT system	618,717	15,385	(5,450)	628,652
Airport buildings	274,480	1,097	344	275,921
Metropolitan transportation centers	21,582	174	-	21,756
Marine terminals, docks, and wharves	18,172	-	(18,172)	-
Motor buses	136,663	22,308	(6,415)	152,556
Equipment, buildings, and other	133,397	14,016	(2,653)	144,760
Total depreciable capital assets	1,518,494	55,212	(33,064)	1,540,642
Accumulated depreciation:				
Land improvements	216,718	11,686	(720)	227,684
LRRT system	451,163	13,399	(5,550)	459,012
Airport buildings	127,613	8,987	(53)	136,547
Metropolitan transportation centers	15,121	475	-	15,596
Marine terminals, docks, and wharves	17,301	78	(17,379)	-
Motor buses	91,506	9,583	(6,401)	94,688
Equipment, buildings, and other	94,843	7,570	(2,666)	99,747
Total accumulated depreciation	1,014,265	51,778	(32,769)	1,033,274
Total depreciable assets, net	504,229	3,434	(295)	507,368
	$ 610,676	$ (6,170)	$ (298)	$ 604,208

(5) Long-Term Debt

(a) Long-Term Obligations (in thousands)

	2018	2017
(1) Airport Revenue Bonds 2014:		
Series A, maturing April 1, 2029 with variable annual principal payments commencing April 1, 2015, bearing interest at 3.0% to 5.0% (net of unamortized premium of $5,012 in 2018 and $5,838 in 2017)	**$ 65,182**	$ 67,159
Series B, maturing April 1, 2019 with variable annual principal payments commencing April 1, 2016, bearing interest at 4.0% to 5.0% (net of unamortized premium of $105 in 2018 and $300 in 2017)	**6,425**	9,735
(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	**24,350**	27,800
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	**3,825**	4,375
(3) New York State, non-interest bearing	**3,380**	3,380
(4) Capital leases, monthly payments with fixed interest rates ranging from 4.19% to 6.59%, maturing in 2019, secured by related equipment	**489**	797
(5) Environmental Facilities Corporation (EFC) maturing January 15, 2020 with variable annual principal payments, bearing interest at 5.612% to 5.742%, offset by a variable refunding interest credit provided by EFC (NYS EFC Series 2011A)	**500**	735
(6) Capital leases, monthly payments with fixed interest rate of 2.91%, maturing in 2025, secured by related equipment	**3,173**	3,537
(7) Capital leases, monthly payments with fixed interest rate of 4.27%, maturing in 2020, secured by related equipment	**569**	847

	2018	2017
(8) Capital lease, monthly payments with fixed interest rate of 7.75%, maturing in 2032, secured by related equipment	**3,654**	3,783
(9) Capital lease, monthly payments with fixed interest rate of 2.57%, maturing in 2022, secured by related equipment	**1,486**	1,786
(10) Capital lease, monthly payments with fixed interest rate of 1.511% maturing in 2023, secured by related equipment	**8,199**	9,641
(11) Capital lease, monthly payments with fixed interest rate of 2.093% maturing in 2024, secured by related equipment	**8,428**	-
(12) Capital lease, annual payments with fixed interest rate of 1.60% maturing in 2020, secured by related equipment	**496**	-
	130,156	133,575
Less current portion	**13,303**	11,321
	$ 116,853	$ 122,254

(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 2029 through 2033 due to the uncertainty of repayment.

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

Changes in long-term debt for the years ended March 31, 2018 and 2017 were as follows (in thousands):

		2018		2017
Balance, beginning of year	$	133,575	$	134,725
Proceeds from issuance of debt		9,799		10,478
Repayment of long-term debt, net of premium amortization		(13,218)		(11,628)
Balance, end of year		130,156		133,575
Less current portion		13,303		11,321
Noncurrent portion	$	116,853	$	122,254

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

	Loans and Capital Leases		Serial Bonds		
	Principal	Interest	Principal	Unamortized Premium	Interest
Years ending March 31,					
2019	$ 4,308	$ 720	$ 8,995	$ 937	$ 4,101
2020	4,220	613	9,180	826	3,794
2021	3,864	521	9,555	710	3,305
2022	3,740	435	9,930	599	2,920
2023	3,721	351	10,410	550	2,476
2024-2028	4,996	969	34,780	1,435	6,351
2029-2033	5,024	324	12,316	60	282
	$ 29,873	$ 3,933	$ 95,166	$ 5,117	$ 23,229

At March 31, 2018 and 2017, 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, 2018 and 2017, the unfavorable basis variance totaled $3,150,000 and $2,607,000.

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

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

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

Terms

At March 31, 2018, the negative fair values of the Series 2004A and 2004C interest rate swaps were $1,547,000 and $235,000, respectively. At March 31, 2017, the negative fair values of the Series 2004A and 2004C interest rate swaps was $2,588,000 and $386,000, respectively. At March 31, 2018, the notional amounts of Series 2004A and 2004C swaps were $24,350,000 and $3,825,000, respectively. At March 31, 2017, the notional amounts of Series 2004A and 2004C swaps were $27,800,000 and $4,375,000, respectively. The terms of the interest rate swaps will remain in effect until the bonds are fully matured on April 1, 2024.

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

As of March 31, 2018 and 2017, the negative fair values of all investment and ineffective derivative instruments totaled $1,782,000 and $2,974,000 and are recorded as other noncurrent liabilities. Negative fair value decreases of $1,192,000 and $1,701,000 for 2018 and 2017 are recorded as non-operating revenues in the statement of revenues, expenses and change in net position.

(6) Passenger Facility Charges

In 1992, the FAA approved the Authority's application to impose collection of Passenger Facility Charges (PFC) at the BNIA. PFCs used specifically for FAA approved projects at the BNIA and included in non-operating revenues totaled $9,624,000 and $9,271,000 for the years ended March 31, 2018 and 2017. During the year ended March 31, 2018, the FAA approved the collection of PFCs at NFIA which totaled $131,000.

(7) Government Assistance

Operations are funded primarily by passenger fares and operating subsidy payments from the Federal Transit Administration (FTA) under Sections 5307 and 5311 of the Urban Mass Transportation Administration (UMTA) Act; the State, Erie and Niagara Counties (pursuant to State transportation laws); and the Buffalo & Fort Erie Public Bridge Authority. Assistance recognized as revenue for the years ended March 31, 2018 and 2017 was as follows (in thousands):

	2018	2017
Metro:		
FTA:		
Section 5307 and 5311 assistance	$ 20,693	$ 20,229
State:		
Statewide transit operating assistance program	48,361	47,337
Section 18b assistance	4,100	4,100
Section 5307 capital maintenance match	2,568	2,510
Total State	55,029	53,947
Erie County:		
88(c) - general	3,357	1,850
Mortgage recording tax (section 88a)	8,658	9,236
Section 18b matching funds	3,657	3,657
Sales tax receipts	20,323	19,613
Total Erie County	35,995	34,356
Niagara County:		
Mortgage recording tax	1,541	1,282
Section 18b matching funds	443	443
Total Niagara County	1,984	1,725
Buffalo and Fort Erie Public Bridge Authority	200	200
	113,901	110,457
NFTA:		
Department of Homeland Security	686	662
	$ 114,587	$ 111,119

(8) Pensions

(a) New York State Retirement System

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

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

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

Contribution requirements: No employee contributions are required for those whose service began prior to July 27, 1976. The Systems require employee contributions of 3% of salary for the first 10 years of service for those employees who joined the Systems on or after July 27, 1976 through December 31, 2009. Participants whose service began on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of their salary for the entire length of service. Employees who joined on or after April 1, 2012 contribute based on annual wages at a rate of 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the Authority to the pension accumulation fund. For payments made in fiscal year 2018, rates ranged from 9.3% - 21.7% for ERS (9.3% - 21.8% for 2017) and 7.3% - 25.3% for PFRS (7.1% - 24.8% for 2017).

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, 2018 and 2017, $5,292,000 and $6,042,000, respectively, is due to the Systems pursuant to the Authority's participation in the Program which is included in other noncurrent liabilities in the accompanying balance sheets.

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

At March 31, 2018 and 2017, the Authority reported a liability of $13,741,000 and $22,292,000, respectively, for its proportionate share of the Systems' net pension liability.

The net pension liability as of March 31, 2018 was measured as of March 31, 2017, and the total pension liability was determined by an actuarial valuation as of April 1, 2016. The Authority's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to the Systems' total actuarially determined employer contributions for the fiscal year ended on the measurement date. At the March 31, 2017 measurement date, the Authority's proportion was 0.0853631% for ERS (a decrease of 0.0024991 from 2016) and 0.2760008% for PFRS (a decrease of 0.0006251 from 2016).

For the years ended March 31, 2018 and 2017, the Authority recognized pension expense of $8,125,000 and $8,208,000, respectively. At March 31, 2018 and 2017, the Authority reported deferred outflows and deferred inflows of resources as follows:

	2018			
	ERS		PFRS	
(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 201	$ 1,218	$ 751	$ 989
Changes of assumptions	2,741	-	2,818	-
Net difference between projected and actual earnings on pension plan investments	1,602	-	854	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	760	86	7	351
Authority contributions subsequent to the measurement date	3,729	-	2,137	-
	$ 9,033	$ 1,304	$ 6,567	$ 1,340

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

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

Years ending March 31,	**ERS**	**PFRS**
2019	**$ 1,763**	**$ 1,055**
2020	**1,763**	**1,055**
2021	**1,506**	**992**
2022	**(1,032)**	**(116)**
2023	**-**	**104**
	$ 4,000	**$ 3,090**

Actuarial Assumptions

The actuarial assumptions used in the April 1, 2016 valuation, with update procedures used to roll forward the total pension liability to March 31, 2017, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation - 2.5%
Salary increases - 3.8% (ERS), 4.5% (PFRS)
Cost of living adjustments - 1.3% annually
Investment rate of return - 7.0% compounded annually, net of investment expense, including inflation
Mortality - Society of Actuaries' Scale MP-2014
Discount rate - 7.0%

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

Investment Asset Allocation

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	36%	4.6%
International equities	14%	6.4%
Private equities	10%	7.8%
Real estate	10%	5.8%
Bonds and mortgages	17%	1.3%
Inflation-indexed bonds	4%	1.5%
Short-term	1%	(0.3%)
Other	8%	4.0-5.9%
	100%	

Discount Rate

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

The following presents the Authority's proportionate share of its net pension liability for ERS and PFRS as of March 31, 2018 calculated using the discount rate of 7% and the impact of using a discount rate that is 1% lower and 1% higher:

(in thousands)	1% Lower Discount Rate (6%)	Current Discount Rate (7%)	1% Higher Discount Rate (8%)
Authority's proportionate share of the ERS net pension asset (liability)	$ (25,617)	$ (8,021)	$ 6,857
Authority's proportionate share of the PFRS net pension asset (liability)	$ (16,217)	$ (5,720)	$ 3,084

(b) *Past Service Costs Due to ERS*

Effective January 1, 1997, active non-bargaining unit participants in the Niagara Frontier Transit Metro System, Inc. Retirement Plan (Metro Plan) transferred to the employment of the NFTA and were given the opportunity to elect to have their contribution accounts transferred from the Metro Plan to ERS. The enabling legislation that provided for the purchase of service credits under ERS for pre-transfer service obligated the Authority to pay ERS additional annual contributions of $465,000 annually, commencing December 1997 (in addition to its regular employer contribution) for 25 years. At March 31, 2018 and 2017, related past service costs totaling $1,860,000 and $2,323,000 are included in other noncurrent liabilities.

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

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

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

Employees Covered by Benefit Terms: At the March 31, 2017 measurement date, the following employees were covered by the Metro Plan:

Retired	55
Beneficiaries	12
Terminated vested	17

Contribution requirements: The Authority pays the full cost of all benefits provided under the Metro Plan. The Authority's policy is to fund the minimum recommended contribution as actuarially determined annually. Contributions to the plan were $32,000 in 2017 and $9,000 in 2016.

Net Pension Liability

The net pension liability was measured as of March 31, 2018 based on an actuarial valuation as of April 1, 2017. Actuarial assumptions applied to all periods included in the measurement are as follows:

Actuarial Cost Method - Entry Age Normal
Mortality - Generational RP-2014 Blue Collar Mortality Table using Scale MP-2016
Rate of Return on Plan Assets – 6.50% (5.7% in 2017)
Discount Rate - The Plan's fiduciary net position is projected to be available to meet all projected future benefit payments resulting in a single discount rate of 6.50% (5.7% in 2017)
Asset Valuation – 5-year smoothed market
Assumed Retirement Age - Age first eligible for unreduced benefits

Changes in the Net Pension Liability

(in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at March 31, 2016	$ (5,261)	$ 4,805	$ (456)
Changes for the year:			
Interest	(283)	-	(283)
Differences between expected and actual experience	334	-	334
Changes of assumptions	(323)	-	(323)
Employer contributions	-	9	9
Net investment income	-	(5)	(5)
Benefit payments	593	(593)	-
Administrative expense	-	(14)	(14)
Net changes	321	(603)	(282)
Balances at March 31, 2017	$ (4,940)	$ 4,202	$ (738)
Changes for the year:			
Interest	(266)	-	(266)
Differences between expected and actual experience	(129)	-	(129)
Changes of assumptions	239	-	239
Employer contributions	-	32	32
Net investment income	-	507	507
Benefit payments	536	(536)	-
Administrative expense	-	(16)	(16)
Net changes	380	(13)	367
Balances at March 31, 2018	**$ (4,560)**	**$ 4,189**	**$ (371)**

The impact of using a discount rate that is 1% lower (5.50%) than the current rate would result in a net pension liability of $675,000 and at 1% higher (7.50%) would result in a net pension liability of $103,000.

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

Plan Description

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

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

Funding Requirement

On a weekly basis, each eligible employee is required to contribute the greater of sixteen dollars or 5% of payroll. Metro's contribution is 11% of eligible employee wages and is determined pursuant to the collective bargaining agreement (CBA) between Metro and the ATU. Metro's contributions to the Plan recorded on the statements of revenues, expenses and change in net position, pursuant to the CBA, totaled $5,667,000 and $5,150,000 for 2018 and 2017. The Agreement provides that Metro is not obligated to make any other payment to fund the benefits or to meet any expenses of administration and, in the event of termination, Metro will have no obligation for further contributions to the ATU Plan. Therefore, net pension assets and liabilities of the ATU plan are not recorded by the Authority.

(e) Postretirement Medical Premium Stipend Plan

The Authority's Metro retirees are provided with a monthly stipend (Stipend Plan) representing the insurance premium amount of single medical coverage if they retired prior to January 1, 2004. If they retired subsequent to January 1, 2004, Metro retirees are provided with continuation of full medical coverage as described in Note 9.

As of March 31, 2018, there are 147 retirees within Metro who retired prior to January 1, 2004. Monthly, each retiree is provided with a cash stipend equivalent to the single medical premium cost or, if enrolled in Medicare, the retiree is provided with an amount equal to the Medicare Part B premium and $932. The retiree has the option of any combination of cash stipend and/or health insurance continuation.

The Authority's annual pension cost and net pension obligation as of March 31, 2018 and 2017 related to the Stipend Plan was:

(in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at March 31, 2016	$ (21,515)	$ -	$ (21,515)
Changes for the year:			
Interest	(922)	-	(922)
Differences between expected and actual experience	1,661	-	1,661
Changes of assumptions	(1,055)	-	(1,055)
Benefit payments	2,118	-	2,118
Net changes	1,802	-	1,802
Balances at March 31, 2017	$ (19,713)	$ -	$ (19,713)
Changes for the year:			
Interest	(722)	-	(722)
Differences between expected and actual experience	(219)	-	(219)
Changes of assumptions	(366)	-	(366)
Benefit payments	1,995	-	1,995
Net changes	688	-	688
Balances at March 31, 2018	**$ (19,025)**	**$ -**	**$ (19,025)**

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

- Actuarial valuation and measurement date of March 31, 2018
- Healthcare cost trend is estimated at 5.90% next year, ultimately declining to 3.94% in year 2075
- Actuarial cost method used is Entry Age Normal
- Discount rate is 3.61% (previously 3.86%)
- RP-2014 Blue Collar Mortality Table projected using Scale MP-2016

The following presents the Authority's Stipend Plan net pension liability as of March 31, 2018 calculated using the discount rate of 3.61% and the impact of using a discount rate that is 1% lower and 1% higher:

(in thousands)	1% Lower Discount Rate (2.61%)	Current Discount Rate (3.61%)	1% Higher Discount Rate (4.61%)
Authority's Stipend Plan net pension liability	$ (20,635)	$ (19,025)	$ (17,636)

(9) Postemployment Benefits

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

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

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

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

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

The following table summarizes the Authority's ARC, the amount actually contributed to the Plan, and changes in the Authority's net OPEB obligation for the year ended March 31, 2018 and 2017 (in thousands):

	2018	2017
Annual required contribution		
Normal cost	$ 8,792	$ 8,462
Amortization of UAAL	12,700	11,746
Annual required contribution	21,492	20,208
Interest on OPEB obligation	6,051	5,510
Adjustment to ARC	(9,079)	(8,110)
Annual OPEB cost	18,464	17,608
Employer contributions	(4,226)	(4,063)
Increase in net OPEB obligation	14,238	13,545
Net OPEB obligation, beginning of year	151,284	137,739
Net OPEB obligation, end of year	$ 165,522	$ 151,284

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

March 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2018	$ 18,464	22.89%	$ 165,522
2017	$ 17,608	23.07%	$ 151,284
2016	$ 21,610	21.70%	$ 137,739

The actuarial analysis supporting the obligation for 2018 was completed using a full valuation as of April 1, 2017. The total unfunded actuarial accrued liability (UAAL) for future benefits was $211,617,000, which includes $165,520,000 for Metro. These projections are based on the April 1, 2017 census data, claims information and the impact of healthcare reform. The covered payroll (annual payroll of active employees covered by the plan) was $92,516,000 and the ratio of the UAAL to the covered payroll was 228.7%.

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

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

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

- Medical trend based on Society of Actuaries Long Term Medical Trend Model, the rate in 2017 is 5.90% with an ultimate rate of 4.0% Pre-Medicare and 3.9% Post-Medicare in 2075

- Actuarial cost method used is Entry Age Normal

- Discount rate is 4.0%

- Amortization method is level dollar method, closed

- Generational RP-2014 Blue Collar Mortality Table using Scale MP-2016

(10) Leases

A portion of the Authority's revenue is generated by a number of fixed-term operating leases at its airport 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 $66,987,000 and $59,807,000 in 2018 and 2017, which includes guaranteed minimum rentals of $21,742,000 and $22,960,000 during 2018 and 2017, respectively.

Rental income is derived primarily from airport operations. At March 31, 2018 and 2017, airport capital assets totaled $236,758,000 and $232,700,000 of which approximately 40% is leased to third parties (based on square footage).

Fixed-term operating leases in effect at March 31, 2018 are expected to yield future minimum rentals as follows:

Years ending March 31,	
2019	$ 21,179
2020	12,273
2021	12,221
2022	12,002
2023	10,575
2024 - 2028	14,636
2029 - 2033	1,390
2034 - 2038	917
2039 - 2043	692
2044 - 2048	60
	$ 85,945

(11) Commitments and Contingencies

(a) Litigation and Claims

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

(b) Self-Insured Claims

The Authority assumes the liability for most risks including, but not limited to, workers compensation, health, property damage, environmental claims, and personal injury claims. The Authority has excess insurance from commercial carriers to cover claims in excess of $1,250,000 per occurrence for workers compensation claims and limits ranging from $50,000 to $5 million depending on the type of claim for other self-insured claims. Estimated liabilities for claims not covered by insurance have been reflected in the financial statements. Workers' compensation liabilities are estimated based on an actuarial valuation dated April 10, 2018. 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, 2018 and 2017 were as follows (in thousands):

	2018	2017
Liability, beginning of year	$ 42,524	$ 40,032
Current year claims and change in estimate	10,690	10,515
Claim payments	(10,658)	(8,023)
Liability, end of year	$ 42,556	$ 42,524

(c) Project Commitments

As of March 31, 2018, the Authority has commenced several projects including:

- Metro 24 Transit buses estimated at $13,753,000 of which none was expended
- BNIA Terminal Roof Replacement estimated at $9,319,000 of which $349,000 was expended
- BNIA Runway 14/32 Rehabilitation estimated at $20,450,000 of which $15,391,000 was expended
- Metro Rail Escalator/Elevator Rehabilitation estimated at $10,990,000 of which $6,705,000 was expended
- BNIA Baggage Claim Expansion estimated at $80,180,000 of which $3,350,000 was expended
- Rail car refurbishment estimated at $49,595,000 of which $41,112,000 was expended
- Metro DL&W Station estimated at $43,000,000 of which none was expended
- Metro (Bus and Rail) fare collection upgrade $22,359,000 of which $7,313,000 was expended
- Metro Amherst/Buffalo LRRT Extension estimated at $5,000,000 of which $587,000 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.

(12) 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 5) pursuant to a Master Resolution approved by the Board of Commissioners for the construction of BNIA. The Master Resolution contains certain compliance covenants including requiring net airport revenues to be a minimum percentage of net debt service. The bonds are payable from and are secured by a lien on net revenues derived from the operations of BNIA. The bonds are special limited obligations of the Authority. They are not general obligations of the Authority and are not a debt of the State or any political subdivision.

(a) BNIA Condensed Balance Sheets (in thousands)

	2018	2017
Assets:		
Current and other	$ 90,426	$ 87,493
Capital assets, net	236,758	232,700
Total assets	327,184	320,193
Deferred outflows of resources	5,688	9,605
Total assets and deferred outflows of resources	$ 332,872	$ 329,798
Liabilities:		
Current liabilities	$ 15,228	$ 15,211
Long-term liabilities	110,269	123,012
Total liabilities	125,497	138,223
Deferred inflows of resources	1,046	1,198
Net position:		
Net investment in capital assets	132,613	117,222
Restricted	45,234	45,263
Unrestricted	28,482	27,892
Total net position	206,329	190,377
Total liabilities, deferred inflows of resources, and net position	$ 332,872	$ 329,798

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

	2018	2017
Operating revenues:		
Concessions and commissions	$ 27,120	$ 26,211
Rental income	11,990	11,727
Airport fees and services	18,064	16,941
Other	4,270	4,100
Total operating revenues	61,444	58,979
Operating expenses	43,787	41,271
Depreciation expense	18,347	17,710
Operating loss	(690)	(2)
Non-operating revenues (expenses):		
Passenger facility charges	9,624	9,271
Change in fair value of swap agreements	1,192	1,701
Interest expense, net	(3,514)	(3,756)
Airport noise abatement	(291)	(489)
Other, net	(840)	522
Operating transfers	(500)	2,070
Change in net position before capital contributions	4,981	9,317
Capital contributions	10,971	1,428
Change in net position	15,952	10,745
Net position - beginning of year	190,377	179,632
Net position - end of year	$ 206,329	$ 190,377

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

	2018	2017
Net operating activities	$ 16,732	$ 19,324
Net investing activities	(8,980)	(11,614)
Net capital and related financing activities	(17,610)	(14,260)
Net change in cash	(9,858)	(6,550)
Cash, beginning of year	48,319	54,869
Cash, end of year	$ 38,461	$ 48,319

(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.

	2018	2017
Airport revenues:		
Operating revenues	**$ 61,444**	$ 58,979
Interest income	**479**	150
Gross airport revenues	**61,923**	59,129
Operating expenses, excluding depreciation	**(43,787)**	(41,271)
Net airport revenues	**18,136**	17,858
Net debt service:		
Principal payable	**8,500**	8,315
Interest payable	**5,091**	5,146
Passenger facility charges	**(535)**	(535)
Net debt service	**$ 13,056**	$ 12,926
Debt service coverage percentage	**138.91%**	138.16%
Minimum percentage requirement	**125.00%**	125.00%

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

As of the measurement date of March 31,	2017	2016	2015
ERS			
Authority's proportion of the net pension position	0.0853631%	0.0878622%	0.0881407%
Authority's proportionate share of the net pension liability	$ 8,021	$ 14,102	$ 2,978
Authority's covered payroll	$ 24,628	$ 24,187	$ 24,546
Authority's proportionate share of the net pension position as a percentage of its covered payroll	32.57%	58.30%	12.13%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.70%	97.90%
PFRS			
Authority's proportion of the net pension position	0.2760008%	0.2766259%	0.2697875%
Authority's proportionate share of the net pension liability	$ 5,720	$ 8,190	$ 742
Authority's covered payroll	$ 9,078	$ 9,675	$ 9,124
Authority's proportionate share of the net pension position as a percentage of its covered payroll	63.01%	84.65%	8.13%
Plan fiduciary net position as a percentage of the total pension liability	93.50%	90.20%	99.00%

Data prior to 2015 is unavailable.

The following is a summary of changes of assumptions:

	2016	2015
Inflation	2.5%	2.7%
Salary increases	3.8%	4.9%
Cost of living adjustments	1.3%	1.4%
Investment rate of return	7.0%	7.5%
Discount rate	7.0%	7.5%

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

March 31,	2018	2017	2016	2015	2014
ERS					
Contractually required contribution	$ 3,729	$ 3,787	$ 4,291	$ 4,855	$ 4,541
Contribution in relation to the contractually required contribution	(3,729)	(3,787)	(4,291)	(4,855)	(4,541)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 25,420	$ 24,628	$ 24,187	$ 24,546	$ 22,847
Contributions as a percentage of covered payroll	14.67%	15.38%	17.74%	19.78%	19.88%
PFRS					
Contractually required contribution	$ 2,137	$ 2,115	$ 1,962	$ 2,394	$ 2,230
Contribution in relation to the contractually required contribution	(2,137)	(2,115)	(1,962)	(2,394)	(2,230)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 9,311	$ 9,078	$ 9,675	$ 9,124	$ 8,796
Contributions as a percentage of covered payroll	22.95%	23.30%	20.28%	26.24%	25.35%

Data prior to 2014 is unavailable.

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

March 31,	**2018**	2017
Total pension liability		
Interest	**$ 722**	$ 922
Differences between expected and actual experience	**219**	(1,661)
Changes of assumptions	**366**	1,055
Benefit payments	**(1,995)**	(2,118)
	(688)	(1,802)
Total pension liability - beginning	**19,713**	21,515
Total pension liability - ending	**$ 19,025**	$ 19,713

Data prior to 2017 is unavailable.

The plan has no assets accumulated in a trust.

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

For the year ended March 31, 2018

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%
4/1/2016	$ -	$ 199,492	$ (199,492)	0%	$ 85,934	232.1%
4/1/2017	$ -	$ 211,617	$ (211,617)	0%	$ 92,516	228.7%

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

Additional Information
Combining Balance Sheets (In thousands)

March 31,	2018			
	NFTA	BNIA	Metro	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 5,902	$ 20,228	$ 11,138	$ 37,268
Investments	-	12,612	-	12,612
Accounts receivable, net	3,802	5,147	2,988	11,937
Grants receivable	2,056	1,638	9,650	13,344
Due to/from affiliate	(30,279)	5,030	25,249	-
Materials and supplies inventory	-	-	5,101	5,101
Prepaid expenses and other	111	537	178	826
	(18,408)	45,192	54,304	81,088
Restricted assets:				
Cash and cash equivalents	7,212	18,233	936	26,381
Investments	-	27,001	25	27,026
	7,212	45,234	961	53,407
Capital assets, net	78,109	236,758	297,366	612,233
Total assets	66,913	327,184	352,631	746,728
Deferred outflows of resources:				
Deferred outflows of resources related to pensions	5,647	5,688	4,265	15,600
Total assets and deferred outflows of resources	$ 72,560	$ 332,872	$ 356,896	$ 762,328
Liabilities				
Current liabilities:				
Current portion of long-term debt	$ 1,810	$ 9,275	$ 2,218	$ 13,303
Accounts payable and accrued expenses	11,725	5,790	13,945	31,460
Other current liabilities	5,426	164	1,794	7,384
	18,961	15,229	17,957	52,147
Noncurrent liabilities:				
Long-term debt	4,654	94,870	17,329	116,853
Other postemployment benefits	28,052	6,456	131,014	165,522
Estimated liability for self-insured claims	2,136	2,715	37,705	42,556
Net pension liabilities	6,084	4,446	22,607	33,137
Other noncurrent liabilities	5,292	1,781	1,858	8,931
	46,218	110,268	210,513	366,999
Total liabilities	65,179	125,497	228,470	419,146
Deferred inflows of resources:				
Deferred inflows of resources related to pensions	817	1,046	781	2,644
Net position				
Net investment in capital assets	71,645	132,613	277,819	482,077
Restricted	1,886	45,234	961	48,081
Unrestricted	(66,967)	28,482	(151,135)	(189,620)
Total net position	6,564	206,329	127,645	340,538
Total liabilities, deferred inflows of resources, and net position	$ 72,560	$ 332,872	$ 356,896	$ 762,328

2017			
NFTA	BNIA	Metro	Total
$ 5,752	$ 20,749	$ 23,653	$ 50,154
-	12,500	-	12,500
4,936	716	1,560	7,212
1,689	507	10,562	12,758
(27,530)	7,115	20,415	-
-	-	4,980	4,980
63	643	208	914
(15,090)	42,230	61,378	88,518
7,400	27,570	2,805	37,775
-	17,693	25	17,718
7,400	45,263	2,830	55,493
81,196	232,700	290,312	604,208
73,506	320,193	354,520	748,219
9,972	9,605	7,428	27,005
$ 83,478	$ 329,798	$ 361,948	$ 775,224
$ 384	$ 8,768	$ 2,169	$ 11,321
9,542	6,367	14,289	30,198
6,088	76	3,661	9,825
16,014	15,211	20,119	51,344
4,729	105,165	12,360	122,254
25,917	5,178	120,189	151,284
2,065	2,534	37,925	42,524
9,621	7,162	25,960	42,743
6,042	2,973	2,323	11,338
48,374	123,012	198,757	370,143
64,388	138,223	218,876	421,487
1,028	1,198	913	3,139
76,744	117,222	272,722	466,688
1,549	45,263	1,054	47,866
(60,231)	27,892	(131,617)	(163,956)
18,062	190,377	142,159	350,598
$ 83,478	$ 329,798	$ 361,948	$ 775,224

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

For the years ended March 31,	2018			
	NFTA	BNIA	Metro	Total
Operating revenues:				
Fares	$ -	$ -	$ 35,478	$ 35,478
Concessions and commissions	2,300	27,120	-	29,420
Rental income	6,049	11,990	-	18,039
Airport fees and services	219	18,064	-	18,283
Other operating revenues	266	4,270	1,219	5,755
Total operating revenues	8,834	61,444	36,697	106,975
Operating expenses:				
Salaries and employee benefits	15,209	18,196	113,106	146,511
Other postemployment benefits	1,086	2,327	10,825	14,238
Depreciation	4,940	18,347	29,454	52,741
Maintenance and repairs	3,042	8,485	9,917	21,444
Transit fuel and power	-	-	3,425	3,425
Utilities	913	2,026	1,684	4,623
Insurance and injuries	370	245	3,332	3,947
Other	4,131	8,056	4,213	16,400
Administration cost reallocation	(10,209)	4,452	5,757	-
Total operating expenses	19,482	62,134	181,713	263,329
Operating loss	(10,648)	(690)	(145,016)	(156,354)
Non-operating revenues (expenses):				
Government assistance	686	-	113,901	114,587
Passenger facility charges	131	9,624	-	9,755
Change in fair value of swap agreements	-	1,192	-	1,192
Interest expense, net	(217)	(3,514)	(666)	(4,397)
Airport noise abatement	-	(291)	-	(291)
Other non-operating revenues (expenses), net	3,981	(840)	(2,056)	1,085
Operating transfers	500	(500)	-	-
Total non-operating net revenues	5,081	5,671	111,179	121,931
Change in net position before capital contributions	(5,567)	4,981	(33,837)	(34,423)
Capital contributions	(5,931)	10,971	19,323	24,363
Change in net position	(11,498)	15,952	(14,514)	(10,060)
Net position - beginning of year	18,062	190,377	142,159	350,598
Net position - end of year	$ 6,564	$ 206,329	$ 127,645	$ 340,538

2017			
NFTA	BNIA	Metro	Total
$ -	$ -	$ 36,866	$ 36,866
2,059	26,211	-	28,270
6,121	11,727	-	17,848
249	16,941	-	17,190
244	4,100	1,345	5,689
8,673	58,979	38,211	105,863
18,211	15,658	106,241	140,110
3,089	152	10,304	13,545
5,517	17,710	28,551	51,778
2,699	8,067	9,608	20,374
-	-	3,805	3,805
889	1,980	1,585	4,454
370	373	3,011	3,754
1,397	10,897	3,455	15,749
(9,503)	4,144	5,359	-
22,669	58,981	171,919	253,569
(13,996)	(2)	(133,708)	(147,706)
662	-	110,457	111,119
-	9,271	-	9,271
-	1,701	-	1,701
(259)	(3,756)	(534)	(4,549)
-	(489)	-	(489)
5,490	522	(3,055)	2,957
(2,070)	2,070	-	-
3,823	9,319	106,868	120,010
(10,173)	9,317	(26,840)	(27,696)
(7,768)	1,428	26,160	19,820
(17,941)	10,745	(680)	(7,876)
36,003	179,632	142,839	358,474
$ 18,062	$ 190,377	$ 142,159	$ 350,598

Additional Information
Buffalo Niagara International Airport - Restricted Assets (In thousands)

For the years ended March 31,	**2018**	2017
Cash and cash equivalents:		
Passenger facility charges	**$ 5,793**	$ 15,428
Operations and maintenance reserve	**2,000**	2,000
Aviation reserve	**2,683**	2,566
Debt service reserve	**6,957**	6,777
Operating reserve	**800**	799
	18,233	27,570
Investments:		
Passenger facility charges	**10,081**	-
Revenue bond reserve	**9,867**	10,696
Repairs and replacement reserve	**750**	750
Operating reserve	**6,303**	6,247
	27,001	17,693
Total restricted assets	**$ 45,234**	$ 45,263

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, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Lumsden & McCormick, LLP

June 28, 2018

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Commissioners
Niagara Frontier Transportation Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Niagara Frontier Transportation Authority (the Authority), a business-type activity and a component unit of the State of New York, which comprise the balance sheet as of March 31, 2018, 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 28, 2018.

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, 2018. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above rules and regulations.

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

Lumsden & McCormick, LLP

June 28, 2018