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

Financial Statements

March 31, 2014 and 2013

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

March 31, 2014 and 2013

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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 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, 2014, 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.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Authority as of March 31, 2013, were audited by other auditors whose report dated June 27, 2013, expressed an unmodified opinion on those statements.

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 xx (preceding the financial statements) and the Schedule of Funding Progress for Other Postemployment Benefits and Pension Plans on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 37 through 40 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 26, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

June 26, 2014

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

March 31, 2014 and 2013

MANAGEMENT'S RESPONSIBILITY FOR AND CERTIFICATION OF THE FINANCIAL STATEMENTS

The management of the Niagara Frontier Transportation Authority (the Authority) is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America including the reasonableness of estimates and judgments inherent in the preparation of the financial statements.

It is management's responsibility to ensure the Authority maintains accounting and reporting systems, supported by a system of internal accounting control, designed to provide reasonable assurance as to the integrity of the underlying financial records and the protection of assets. These systems include written policies and procedures, selection and training of qualified personnel, organizational segregation of duties and a program of internal reviews and appropriate follow-up.

Management believes the Authority's systems are adequate to provide reasonable assurances that assets are safeguarded against loss from unauthorized use or disposition and financial records are reliable for preparing financial statements.

The Board of Commissioners is responsible for ensuring the independence and qualifications of Audit and Governance Committee members. The Audit and Governance Committee of the Board of Commissioners, which consists of five non-management commissioners, oversees the Authority's financial reporting and internal control system and meets regularly with management, the independent auditors and internal auditors to review auditing and financial reporting matters. The Audit and Governance Committee is solely responsible for the selection and retention of the Authority's independent auditors. The independent auditors and internal auditors have full and free access to the Audit and Governance Committee and meet with it to discuss their audit work, the Authority's internal controls, and financial reporting matters.

Lumsden & McCormick, LLP is responsible for conducting an independent examination of the Authority's financial statements in accordance with auditing standards generally accepted in the United States of America, and expressing an opinion as to whether the financial statements fairly present, in all material respects, the Authority's financial position, operating results, and cash flows.

Management certifies that, based on our knowledge, the information provided therein 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 of the Authority as of, and for, the periods 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

June 26, 2014

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

March 31, 2014 and 2013

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Niagara Frontier Transportation Authority (the Authority) is responsible for establishing and maintaining adequate internal controls and procedures over financial reporting. The Niagara Frontier Transportation Authority's internal control system is designed to provide reasonable assurance to the Authority's management and Board of Commissioners regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, internal control effectiveness may vary over time.

The Authority's management assessed the effectiveness of the Authority's internal control over financial reporting as of March 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on our assessment we believe that, as of March 31, 2014, the Authority's internal controls over financial reporting is effective based on those criteria.

The Authority's independent auditor, Lumsden & McCormick, LLP, has issued a report on our assessment of the Authority's internal control over financial reporting.

NIAGARA FRONTIER TRANSPORTATION AUTHORITY

Kimberley A. Minkel
Executive Director

John T. Cox
Chief Financial Officer

Patrick J. Dalton
Director of Internal Audit

June 26, 2014

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

The Board of Commissioners
Niagara Frontier Transportation Authority

We have examined management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Niagara Frontier Transportation Authority (the Authority) maintained effective internal control over financial reporting as of March 31, 2014, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Authority's management is responsible for maintaining effective internal control over financial reporting, and for its assertion about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

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

In our opinion, management's assertion that the Authority maintained effective internal control over financial reporting as of March 31, 2014 is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Authority and our report dated June 26, 2014 expressed an unmodified opinion.

Lumsden & McCormick, LLP

June 26, 2014

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

Management's Discussion and Analysis

For the Years Ended March 31, 2014, 2013 and 2012
(Unaudited)

This management's discussion and analysis (MD&A) of the Niagara Frontier Transportation Authority (the Authority) provides an introduction and overview to the financial statements of the Authority for the fiscal years ended March 31, 2014, 2013, and 2012. Following this MD&A are the financial statements of the Authority, together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

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

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

Mission Statement

The Authority is a multi-modal entity encompassing a skilled and dedicated workforce. We are firmly committed to providing safe, efficient and professional transportation services that enhance the quality of life in the Buffalo Niagara region in a manner consistent with the needs of our customers.

Aviation: serves as a catalyst for economic growth by maintaining cost effective, customer oriented, and efficient airports to attract and retain comprehensive and competitive air transportation services.

Surface: enhance the quality of life of residents and visitors by providing the highest level of safe, clean, affordable, responsive, and reliable transportation through a coordinated and convenient bus and rail system.

Property: manage and develop the Authority owned real property to optimize the generation of self-supporting discretionary revenue to support our transportation businesses while fostering economic growth.

Support services: proactively provide high quality, coordinated, innovative, technological, and cost-effective support service solutions for our internal and external stakeholders.

Vision Statement

Ensure the optimal generation, use and allocation of resources in providing the highest quality of services.

Support the effective coordination and partnership with public and private entities in continuously improving transportation services to promote regional growth.

Promote a positive image as a gateway to the Buffalo Niagara Region.

Maximize the use of proven technology in the effective and efficient provision of transportation services.

Maintain a highly motivated, skilled and innovative workforce.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements consist of:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows

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 the financial position of the Authority is improving or deteriorating.

Statements of Revenues, Expenses and Changes in Net Position report the operating revenues and expenses, and non-operating revenues and expenses of the Authority for the fiscal year with the difference, loss before capital contributions, combined with capital contributions determine the change in net position for the fiscal year. That change, combined with the previous year's net position total, reconciles to the net position total at the end of this fiscal year.

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

The notes to the financial statements further explain certain information in the financial statements and provide more detailed data. The statements are followed by additional information that provides information related to NFTA and Metro.

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

Management's Discussion and Analysis

For the Years Ended March 31, 2014, 2013 and 2012
(Unaudited)

Summary of Financial Highlights

Summary of Net Position

	March 31		
	2014	2013	2012 As restated
		(In thousands)	
Current assets	$ 61,020	$ 57,814	$ 48,752
Restricted assets	46,912	45,003	42,647
Bond insurance costs, net	1,543	1,683	1,823
Capital assets, net	673,651	704,338	713,763
Total assets	783,126	808,838	806,985
Current liabilities	52,777	57,680	50,531
Long-term liabilities	290,485	285,696	282,123
Total liabilities	343,262	343,376	332,654
Net position:			
Net investment in capital assets	519,675	533,939	529,698
Restricted	40,082	54,631	51,613
Unrestricted	(119,893)	(123,108)	(106,980)
Total net position	$ 439,864	$ 465,462	$ 474,331

March 31, 2014 vs. March 31, 2013

The changes in total net position serve over time as a useful indicator of the Authority's financial position. The Authority's assets exceeded liabilities by $439.9 million at March 31, 2014, a $25.6 million, or 5.5%, decrease from March 31, 2013. Included in 2014 is an increase in health insurance postemployment liabilities of $13.6 million.

- Current assets increased $3.2 million, or 5.5%, due to an increase in government grants receivable related to additional Preventive Maintenance (PM) funds for Metro, partially offset by higher operating cash outflows.
- Restricted assets increased $1.9 million, or 4.2%, in compliance with funding source and debt service reserve requirements.

- Capital assets decreased $30.6 million, or 4.4%, due to the continued depreciation of existing Metro buses and railcars, and Buffalo Niagara International Airport (BNIA) buildings, facilities and surrounding infrastructure, partially offset by the capitalized costs in the current year primarily related to the railcar rebuild project, track bed replacement and BNIA long term lot B expansion.
- Current liabilities decreased $4.9 million, or 8.5%, attributable to the payoff of the $5.5 million line of credit drawn in 2012 for the anticipated receipt of New York State dedicated transit funds.
- Long-term debt (net of current portion) declined $10.3 million, or 6.8%, as debt service payments continued related to the construction of the BNIA and Niagara Falls International Airport (NFIA) terminals.
- Payable to New York State Retirement increased $1.3 million, or 28.6%. The Pension Stabilization Program (Chapter 57, Laws of 2010) contributed $2.1 million to the variance, partially offset by $0.7 million amortization of deferred amounts from prior years.

The Authority uses its capital assets primarily to provide services to the public. Significant components of capital assets include a Light Rail Rapid Transit (LRRT) system and the BNIA. Authority additions included $3.5 million and $1.2 million for the BNIA Long Term Lot B Expansion and BNIA runway 5/23 and 14/32 intersection project, respectively. Also, NFIA runway 10L/28R rehabilitation from 2003 was disposed in 2014 as a result of the runway mill and overlay project of 2013. Metro additions included $2.6 million for the ongoing mid-life railcar rebuild project, $2.2 million and $2.0 million for rail track bed replacement (600 block of Main Street) and the purchase of four trolley buses, respectively. Also, certain rail station structures and nineteen life-expired small transit buses were disposed in 2014.

March 31, 2013 vs. March 31, 2012

The Authority's assets exceeded liabilities by $465.5 million at March 31, 2013, an $8.9 million, or 1.9%, decrease from March 31, 2012. Included in 2013 is an increase in health insurance postemployment liabilities of $13.4 million.

- Current assets increased $9.1 million, or 18.6%, due to an increase in cash balances of $7.4 million, or 35.6%, resulting from lower cash outflows from favorable operating activities, and an increase in government agencies receivable related to higher drawdown requests for federal and state assistance and other miscellaneous grants.
- Restricted assets increased $2.4 million, or 5.5%, in compliance with funding sources and debt service reserve requirements.
- Capital assets decreased $9.4 million, or 1.3%, due to the continued depreciation of existing Metro railcars and BNIA buildings, facilities and surrounding infrastructure, partially offset by the capitalization of the NFIA runway mill and overlay project and thirteen new hybrid Metro buses.
- Current liabilities increased $6.0 million, or 12.0%, attributable to higher accounts payable and accrued expenses due to the impact of year end capital project expenditures, most notably the Train Control Carborne ATP System, Mall Track Switches and BNIA Long Term Lot B Expansion. The accrual of the potential impact of represented employee contract settlements also contributed to the increase.
- Long-term debt (net of current portion) declined $13.4 million, or 8.1%, as debt service payments for capital projects increased.

- Payable to New York State Retirement increased $4.1 million. The Pension Stabilization Program (Chapter 57, Laws of 2010) contributed $2.4 million to the variance.

The major change in capital assets between 2013 and 2012 included $16.5 million for the NFIA runway mill and overlay project, $1.5 million for BNIA revolving doors replacement and $1.2 million for the BNIA two-tier departure level deck rehabilitation. Metro additions included $8.7 million for the purchase of thirteen hybrid buses, $2.4 million and $2.4 million for the ongoing mid-life railcar rebuild project and the purchase of thirty-one small buses, respectively, and $1.4 million for rail fastener and pad replacement. Also, thirty-seven life-expired transit buses were disposed in 2013.

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

Management's Discussion and Analysis

For the Years Ended March 31, 2014, 2013 and 2012
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

	Years ended March 31		
	2014	2013	2012 As restated
		(In thousands)	
Operating revenues:			
Fares	$ 36,714	$ 36,489	$ 32,524
Concessions and commissions	29,035	30,203	29,294
Rental income	15,976	14,877	13,409
Airport fees and services	16,874	16,137	16,208
Other operating revenues	6,741	7,153	6,894
Total operating revenues	105,340	104,859	98,329
Operating expenses:			
Salaries and employee benefits	120,086	116,877	116,089
Other postemployment benefits	16,181	18,502	17,329
Depreciation	53,021	56,274	57,523
Maintenance and repairs	18,587	16,420	16,267
Transit fuel and power	8,106	8,219	8,582
Utilities	6,358	5,101	5,242
Insurance and injuries	4,292	4,374	4,118
Safety and security	11,695	11,255	11,581
Other operating expenses	13,521	13,396	13,784
Total operating expenses	251,847	250,418	250,515
Operating loss	(146,507)	(145,559)	(152,186)
Nonoperating revenues, net	97,199	88,280	107,349
Loss before capital contributions	(49,308)	(57,279)	(44,837)
Capital contributions	23,710	48,410	25,885
Change in net position	(25,598)	(8,869)	(18,952)
Total net position, beginning of year as previously stated	465,462	474,331	495,121
Restatement	-	-	(1,838)
Total net position, beginning of year as restated	465,462	474,331	493,283
Total net position, end of year	$ 439,864	$ 465,462	$ 474,331

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
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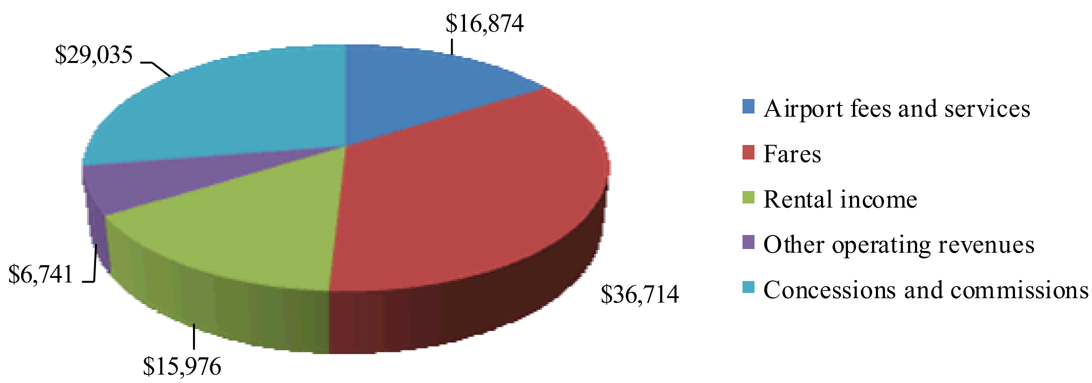
Management's Discussion and Analysis

For the Years Ended March 31, 2014, 2013 and 2012
(Unaudited)

March 31, 2014 vs. March 31, 2013

The Authority ended 2014 with total net position of $439.9 million, a $25.6 million or 5.5%, decrease as compared to 2013.

Sources of Revenue for FYE 2014



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

Authority-wide operating revenues increased 0.5% from $104.9 million to $105.3 million due to the following:

- NFTA operating revenues increased 0.2%, from $67.7 million to $67.9 million.
  - BNIA airport fees and services increased $0.7 million, or 4.6%, as increased direct landing area expenses, bond debt service costs and higher NFIA net deficit, are factored into signatory airline billings. The BNIA signatory airlines, as part of the landing fee rate, fund 50% of NFIA's net deficit, after capital needs. BNIA rental income increased $0.7 million, or 7.3%, due to higher airline overnight parking and gate use fees. The Authority also realized a full year impact of a new lease agreement with auto rental companies which resulted in higher fixed rental billings, offset by lower variable auto rental revenue (concessions), based on a lowered negotiated minimum guarantee. BNIA concessions/commissions decreased $1.5 million, or 5.1%, due to decreased parking lot/ramp and lower auto rental revenue resulting from the aforementioned negotiated lease agreement.
  - NFIA concessions/commissions increased $0.3 million, or 23.1%, as a result of higher parking revenue.
  - Property Development Group operating revenue increased $0.1 million, or 2.1%, due to higher Boat Harbor dock and gasoline sales revenue and increased rental revenue, primarily at Terminal A, partially offset by lower utility rebillings at 485 Cayuga Road.

METRO

- Metro operating revenue increased 0.8%, from $37.2 million to $37.5 million, primarily due to higher university pass program revenue, while core ridership remained at similar levels.

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
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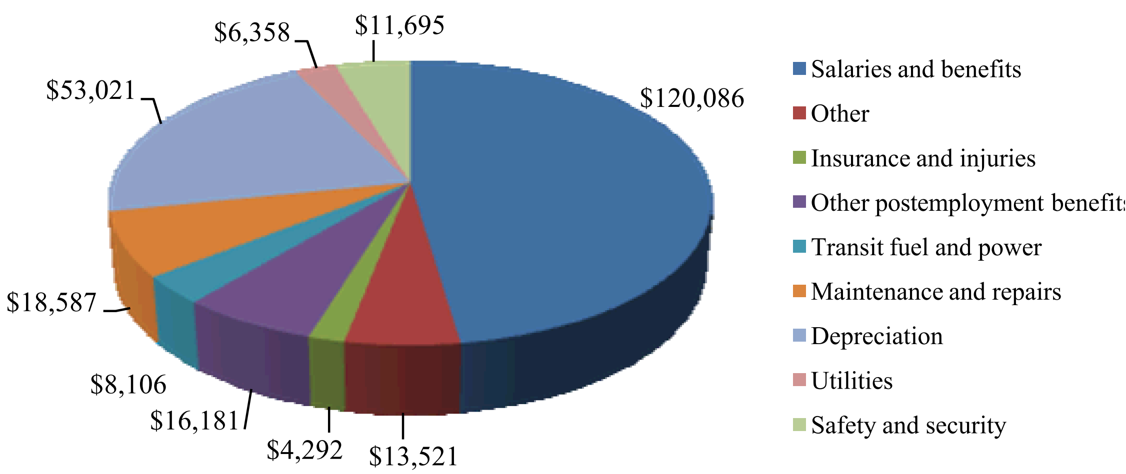
Management's Discussion and Analysis

For the Years Ended March 31, 2014, 2013 and 2012
(Unaudited)

Expenses for FYE 2014



Operating expenses increased from $250.4 million to $251.8 million, or 0.6%, due to the following:

NFTA

- NFTA expenses increased 3.0% from $82.9 million to $85.4 million. Included in 2014 are $4.6 million in health insurance postemployment costs and higher workers' compensation costs of $0.7 million, or 85.0%, as 2014 included an unfavorable year-end actuarial adjustment based on cases outstanding. Decreased health insurance costs of $0.2 million, or 2.9%, and lower pension costs of $0.5 million, or 8.5%, are allocated throughout the NFTA to the business centers and support functions noted below. Other expense variances identifiable to business centers and administrative support areas are the following:

  BNIA:

  - Salaries and employee benefits increased $0.5 million, or 3.5%, as a result of union contractual and non-represented employee increases and higher overtime and workers' compensation costs, partially offset by lower health insurance and pension costs.
  - Maintenance & repairs increased $0.7 million, or 8.8%, due to higher snowplowing, automotive (diesel fuel and supplies) and environmental costs, partially offset by decreased baggage maintenance costs as negotiations with a new supply company resulted in significant savings.
  - Utilities increased $0.6 million, or 25.7%, as an extraordinarily harsh winter resulted in increased electric and gas billings.
  - Safety & security increased $0.3 million, or 4.3%, as a result of increased police workers' compensation costs, partially offset by decreased health insurance and pension costs.

- General business/other increased $0.3 million, or 5.2%, as the partial reversal 2013 bad debt expense, and higher temporary help, parking management costs and advertising expenses contributed to the variance.

NFIA:

- Utilities increased $0.04 million, or 12.0%, due to higher electric and gas billings (weather related).

- Safety and security increased $0.2 million, or 66.4%, due to higher police workers' compensation and a reallocation of police resources to NFIA operations, partially offset by lower police health insurance and pension costs.

- General business/other increased $0.2 million, or 33.7%, as a result of higher parking operation costs and temporary help.

Transportation Centers:

- Salaries and employee benefits increased $0.1 million, or 12.7%, as a result of fewer staffing vacancies contractual and non-represented employee increases and higher overtime and workers' compensation costs, partially offset by lower health insurance and pension costs.

- Utilities increased $0.07 million, or 21.9%, as the extraordinarily harsh winter contributed to higher electric and gas billings.

- Safety and security increased $0.1 million, or 32.4%, due to a reallocation of police resources and higher police workers' compensation costs, partially offset by lower police health insurance and pension costs.

Property Development Group:

- Salaries and employee benefits increased $0.05 million, or 8.4%, as a result of fewer staffing vacancies, union contractual and non-represented employee increases and higher workers' compensation costs, partially offset by lower health insurance and pension costs.

- Utilities increased $0.1 million, or 20.4%, as a result of weather related increases to electric and gas billings at Cayuga Commerce Center and 485 Cayuga Road.

- Safety and security decreased $0.04 million, or 62.3%, due to a reallocation of police resources and lower police health insurance and pension costs, partially offset by higher police workers' compensation costs.

Administrative Support:

- Salaries and employee benefits increased $0.7 million, or 2.5%, as a result of union contractual and non-represented employee increases, higher staffing and workers' compensation costs, partially offset by lower health insurance, pension costs and police overtime.

- Maintenance and repairs decreased $0.1 million, or 20.3%, due to lower MIS service costs, police facilities maintenance costs and automotive expenses.

- Insurance claims and settlements decreased $0.1 million, or 42.1%, resulting from lower police claim losses.

- General business/other increased $0.4 million, or 15.4%, due to higher professional services/consultant costs, advertising, rent and general office expenses.

METRO:

- Metro operating expenses decreased 0.6% from $167.5 million to $166.4 million, due to the following:

  - Salaries and employee benefits increased $2.4 million, or 2.6%, due to higher instruction labor, student labor, snowplowing labor, overtime and health insurance costs, partially offset by lower workers' compensation and pension costs.

  - 2014 includes $11.6 million in health insurance postemployment costs, a decrease of $0.3 million, or 2.7%.

  - Maintenance and repairs increased $1.5 million, or 24.0%, as higher revenue and non-revenue vehicle maintenance, environmental and facility costs contributed to the variance.

  - Transit Fuel/Power decreased $0.1 million, or 1.4%, due to decreased diesel fuel costs, partly attributable to favorable hedged prices, and lower rail traction costs.

  - Utilities increased $0.5 million, or 28.6%, as the extraordinarily harsh winter contributed to higher electric and gas billings.

  - Other operating expenses decreased $0.5 million, or 13.6%, as decreased transportation costs and recognition of a provision/reserve (bad debt) expense in 2013 contributed to the variance.

The net result of the above was an operating loss increase of 0.7% from $145.6 million in 2013 to $146.5 million in 2014.

Net non-operating revenues for fiscal 2014 increased 10.1%, from $88.3 million to $97.2 million, compared to fiscal 2013 due to an increase in federal operating assistance of $3.2 million, or 21.5%, a favorable adjustment of $2.0 million related to the change in value of derivative instruments, a $1.1 million adjustment related to ongoing union contract negotiations, and increased expenses of $2.2 million related to the airport noise abatement project.

The net result of the above was a decrease in the loss before capital contributions of 14.0% from $57.3 million in 2013 to $49.3 million in 2014.

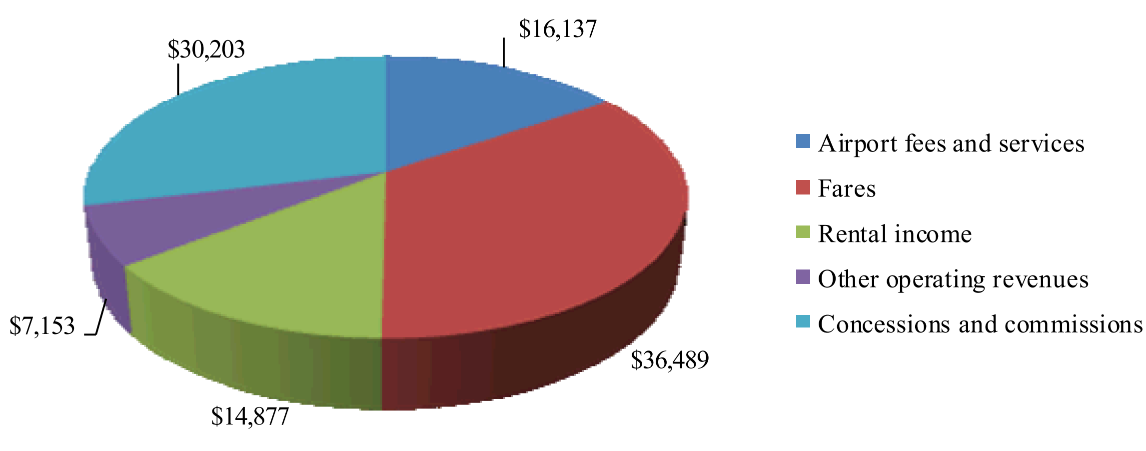
Capital contributions decreased 51% from $48.4 million in 2013 to $23.7 million in 2014 primarily due to lower grant funds related to decreased drawdowns of FTA, FAA, NYSDOT and other miscellaneous grants as 2013 included major runway work at NFIA and the purchase of thirteen hybrid buses.

Summary of Revenues, Expenses and Changes in Net Position

March 31, 2013 vs. March 31, 2012

The Authority ended 2013 with total net position of $465.5 million, an $8.9 million or 1.9%, decrease as compared to 2012.

Sources of Revenue for FYE 2013



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

Management's Discussion and Analysis

For the Years Ended March 31, 2014, 2013 and 2012
(Unaudited)

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

Authority-wide operating revenues increased 6.6% from $98.3 million to $104.9 million due to the following:

- NFTA operating revenues increased 3.7%, from $65.2 million to $67.6 million.

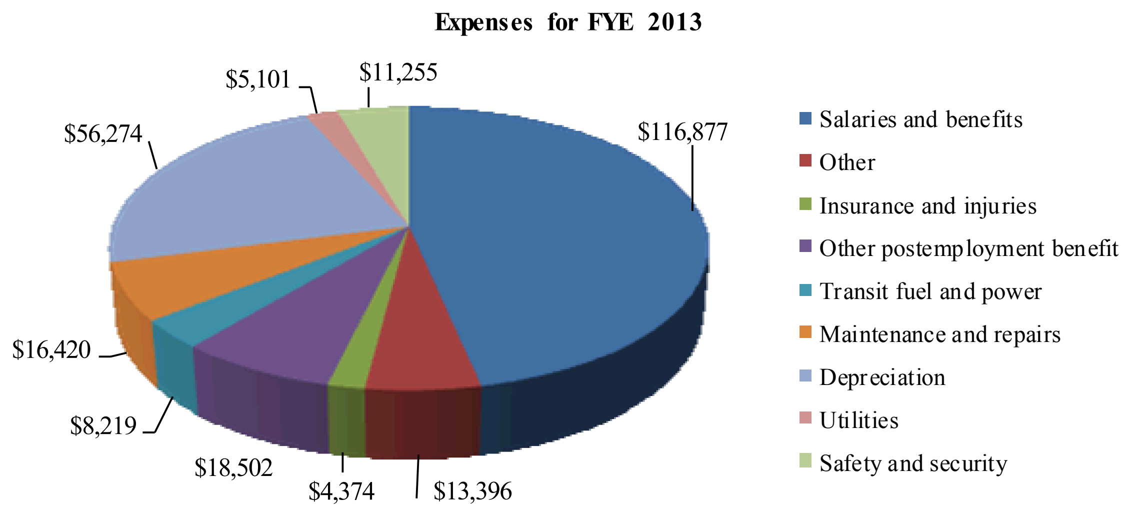
  - BNIA rental income increased $1.2 million, or 14.1%, due to higher airline overnight parking and gate use fees related to increased business cyclical activity, a new lease agreement negotiated with auto rental companies resulting in higher fixed rental billings offset by lower variable auto rental revenue (concessions) resulting from a lowered negotiated minimum guarantee and higher terminal rental compensatory billings with increased terminal direct and indirect costs. BNIA concessions/commissions increased $0.7 million, or 2.5%, primarily due to increased auto rental and parking lot/ramp revenue.

  - NFIA concessions/commissions increased $0.2 million, or 18.0%, as a result of higher parking revenue.

  - Property Development Group operating revenue increased $0.4 million, or 8.4%, due to higher Boat Harbor dock and gasoline sales revenue and increased rental revenue, primarily at 485 Cayuga Road.

METRO

- Metro operating revenue increased 12.3%, from $33.1 million to $37.2 million, as base fares increased from $1.75 to $2.00, effective May 1, 2012.



Operating expenses decreased from $250.5 million to $250.4 million, due to the following:

NFTA

- NFTA expenses increased 3.8% from $79.9 million to $82.9 million. Included in 2013 are $6.6 million in health insurance postemployment costs. Lower workers' compensation costs of $1.1 million, or 58.5%, as 2012 included a negative year-end actuarial adjustment based on cases outstanding, and decreased health insurance costs of $0.2 million, or 3.1%, partially offset by higher pension costs of $0.4 million, or 7.2%, are allocated throughout the NFTA to the business centers and support functions noted below. Other expense variances identifiable to business centers and administrative support areas are the following:

  BNIA:

  - Salaries and employee benefits increased $0.1 million, or 0.9%, as a result of union contractual increases and higher pension costs, partially offset by lower workers' compensation and health insurance costs.

  - Maintenance & repairs increased $0.4 million, or 4.4%, as higher snowplowing and automotive (diesel fuel and supplies) costs contributed to the variance.

  - Utilities increased $0.2 million, or 10.4%, due to increased usage.

  - Safety & security decreased $0.6 million, or 10.9%, as a result of decreased workers' compensation and health insurance costs. Also, traffic control costs increased $0.3 million, or 43.7%, based on a new contract inclusive of a prevailing wage adjustment.

NFIA:

- Salaries and employee benefits increased $0.2 million, or 14.9%, as a result of union contractual increases, higher workers' compensation and increased staffing, consistent with greater business activity, partially offset by lower workers' compensation and health insurance costs.

- Maintenance and repairs decreased $0.1 million, or 13.3%, due to lower runway repair costs.

- Safety and security decreased $0.04 million, or 13.7%, due to lower police workers' compensation and health insurance costs and a reallocation of police resources to NFIA operations, partially offset by higher police pension costs.

- General business/other decreased $0.3 million, or 35.3%, as a result of lower parking operation expense with the loss of Direct Air in March 2012 and the six week closure of our runway for major repairs. Also, 2012 included $0.1 million in provision/reserve (bad debt) costs related to the Direct Air bankruptcy.

Transportation Centers:

- Utilities decreased $0.05 million, or 12.7%, due to lower National Grid delivery costs and multi-year low natural gas prices.

- Safety and security increased $0.03 million, or 10.2%, due to a reallocation of police resources and higher pension costs, partially offset by lower workers' compensation and health insurance costs.

- General business/other costs increased $0.06 million, or 98.0% as 2013 included $0.04 million in provision/reserves (bad debt) costs.

Property Development Group:

- Utilities decreased $0.08 million, or 14.4%, as electric billings at 485 Cayuga Road decreased due to lower National Grid capacity and usage costs.

- Insurance and injuries increased $0.02 million, or 17.0%, due to higher general liability costs.

- General business/other costs increased $0.1 million, or 14.4%, as 2012 included $0.1 million in NanoDynamics, Inc.bankruptcy proceeds.

Administrative Support:

- Personnel services decreased $1.2 million, or 4.4%, as a result of a decreased police force, lower workers' compensation costs and health insurance costs, partially offset by higher pension costs and police overtime.

- Maintenance and repairs increased $0.2 million, or 48.6%, due to higher MIS service costs and police automotive expenses.

- Insurance and injuries increased $0.1 million, or 60.9%, resulting from higher police claim losses.

- General business/other costs increased $0.3 million, or 12.7%, due to a reallocation of adjudication department costs.

- Included in general business/other are contra accounts related to costs allocated to business centers. Police costs decreased with a reduced work force resulting in $0.6 million or 2.9% change in general business/other.

METRO:

- Metro operating expenses decreased 1.9% from $170.7 million to $167.5 million, due to the following:

  - Salaries and employee benefits increased $0.4 million, or 0.4%, due to higher workers' compensation, overtime and health insurance costs, partially offset by lower staffing costs.
  - 2013 includes $11.9 million in health insurance postemployment costs, a decrease of $2.1 million, or 14.8%.
  - Transit Fuel/Power decreased $0.05 million, or 5.6%, due to decreased diesel fuel costs, partly attributable to favorable hedged prices, and lower rail traction costs.
  - Utilities decreased $0.2 million, or 11.2%, as a result of lower National Grid capacity and usage costs.
  - Safety and security decreased $0.9 million, or 16.6%, due to a decreased police force, lower police workers' compensation and health insurance costs, partially offset by higher police pension and overtime costs.
  - Other operating expenses increased $0.2 million, or 6.2%, as increased advertising costs and recognition of a provision/reserve (bad debt) expense of $0.06 million contributed to the variance.

The net result of the above was an operating loss decrease of 4.4% from $152.2 million in 2012 to $145.6 million in 2013.

Net non-operating revenues increased 1.7% from $86.8 million in 2012 to $88.3 million in 2013.

The net result of the above was a decrease in the loss before capital contributions of 12.4% from $65.4 million in 2012 to $57.3 million in 2013.

Capital contributions increased 4.3% from $46.4 million in 2012 to $48.4 million in 2013 primarily due to the timing of capital projects and bus purchases.

Capital Assets

Non-depreciable capital assets include land and construction in progress. Depreciable capital assets include light rail rapid transit, airport buildings, metropolitan transportation centers, marine terminals, docks and wharves, motorbuses and equipment.

The following is a schedule of the Authority's capital assets:

	March 31		
	2014	2013	2012
		(In thousands)	
Nondepreciable:			
Land	$ 63,137	$ 63,137	62,572
Construction in progress	30,131	33,505	40,630
Total capital assets not subject to depreciation	93,268	96,642	103,202
Depreciable:			
Land improvements	339,893	344,464	311,963
Light rail rapid transit system	615,713	611,126	607,998
Airport buildings	271,209	270,672	267,888
Metropolitan transportation centers	20,846	20,849	20,849
Marine terminals, docks and wharves	26,568	27,433	27,566
Motor buses	136,412	134,560	130,534
Equipment, miscellaneous, buildings and other	136,552	134,860	133,590
Depreciable capital assets	1,547,193	1,543,964	1,500,388
Less accumulated depreciation	(966,810)	(936,268)	(889,827)
Total net capital assets	$ 673,651	704,338	713,763

March 31, 2014 vs. March 31, 2013

Noteworthy capital asset additions and disposals for fiscal year 2014 were:

- NFTA additions included $3.5 million and $1.2 million for the BNIA Long Term Lot B Expansion and BNIA runway 5/23 and 14/32 intersection project, respectively. Also, NFIA runway 10L/28R rehabilitation from 2003 was disposed in 2014 as a result of the runway mill and overlay project of 2013.
- Metro additions included $2.6 million for the ongoing mid-life railcar rebuild project, $2.2 million and $2.0 million for rail track bed replacement (600 block of Main Street) and the purchase of four trolley buses, respectively. Also, rail station structures and nineteen life-expired small transit buses were disposed in 2014.

March 31, 2013 vs. March 31, 2012

Noteworthy capital asset additions and disposals for fiscal year 2013 were:

- NFTA additions included $16.5 million for the NFIA runway 10L/28R mill and overlay project, $1.5 million for BNIA revolving doors replacement, and $1.2 million for the BNIA two-tier departure level deck rehabilitation.
- Metro additions included $8.7 million for the purchase of thirteen hybrid buses, $2.4 million and $2.4 million for the ongoing mid-life railcar rebuild project and the purchase of thirty-one small buses, respectively, and $1.4 million for rail fastener and pad replacement. Also, thirty-seven life-expired transit buses were disposed in 2013.

Debt Administration

March 31, 2014 vs. March 31, 2013

At March 31, 2014, the Authority had $154.0 million of outstanding debt. This represents a $16.4 million, or 9.6%, decrease from 2013. Continued debt service payments related to BNIA and NFIA terminal construction, as well as repayment of the $5.5 million line of credit drawn in 2012 for the anticipated receipt of New York State dedicated transit funds, contributed to the decrease.

March 31, 2013 vs. March 31, 2012

At March 31, 2013, the Authority had $170.4 million of outstanding debt. This represents a $13.7 million, or 7.4%, decrease from 2012. Debt service payments related to the construction of BNIA and NFIA terminals contributed to the decrease.

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

Management's Discussion and Analysis

For the Years Ended March 31, 2014, 2013 and 2012
(Unaudited)

OPERATIONS, ACCOMPLISHMENTS AND OUTLOOK FOR THE AUTHORITY

Surface Transportation

Metro bus and rail is the Authority's largest strategic business unit with over 1,100 employees. It is also the second largest transit provider in New York State, behind the Metropolitan Transportation Authority in New York City, and the only upstate transportation authority to operate a light rail system. It transports approximately 30 million passengers a year over 1,575 square miles.

Based on a calendar year 2012 On Board Study conducted by the Greater Buffalo-Niagara Regional Transportation Council, the majority of our transit riders are transit dependent. Eighty-two percent of riders do not have access to a vehicle and 55 percent of riders do not have a valid driver's license. Furthermore, 14 percent of riders surveyed in the region were unemployed. The survey found that the NFTA Surface Transportation System primarily serves people with lower incomes. On average 90% of riders were from households with an annual income of less than $50,000 and 37% of riders were from households making less than $10,000 annually.

Approximately 27% of Metro's revenues come from fare collection and advertising, while 73% comes from outside operating assistance. New York State provides 47% of total operating assistance, while 36% comes from local sources and 17% from the federal government. Any changes in these funding sources can have a significant impact on future operations. In fact, the Authority's five year capital and operating plan for fiscal years 15-19, projects approximately $6 - $13 million a year in additional support, primarily for surface transportation, will be required in order to be sustainable without dramatically impacting service or fare structure.

Further analysis also revealed that if State Operating Assistance was based on the Federal formula methodology the Authority would receive approximately $9 million more per year since federal funding takes into consideration population, population density, bus revenue vehicle miles, bus passenger miles, fixed guideway revenue vehicle miles, and fixed guideway route miles.

However, the Authority recognizes that federal, state and local government sectors continue to face fiscal challenges and new funding sources need to be addressed for public transportation; our goal is to continue to work towards diversifying and growing the funding sources to help sustain public transportation for all of upstate New York.

As part of our Blueprint for the Future, in addition to stabilizing government assistance, our strategic plans concentrate on cost control, increasing organizational liquidity, technological improvements, operational changes such as implementation of a new fare box collection system providing more user flexible fare structures, improving service standards, continuing to engage the public with the newly established Citizens Advisory Committee for Public Transportation, developing our workforce, and growing locally generated revenue through public-private partnerships.

A Transit Intelligent Transportation System (ITS) Strategic plan has been drafted that will guide the implementation of ITS projects for the next 2 - 4 years.

The NFTA continues work on several key innovative projects that will positively impact public transportation in the region and spur economic development. The Niagara Street Corridor Project will create a comprehensive urban transit corridor in the City of Buffalo that will improve NFTA bus service, advance the FTA's livability standards and act as a model for future corridors in the NFTA service area and throughout the United States. The project, which goes from Niagara Square in downtown Buffalo to Niagara and Ontario streets, focuses on a high-demand urban transit corridor which presents real opportunity for neighborhood revitalization, transit orientated development, and improved livability for local citizens. Final products of the project will include five new 40-foot CNG buses, a compact neighborhood transit center and park-and-ride with bus holding spaces near prime access points for six bus routes, traffic signal prioritization equipment to enhance bus flow and timing, and new bus shelters with solar panels and next bus notification technology. The anticipated completion is fiscal 2016.

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

In addition, the NFTA is engaged as part of One Region Forward. One Region Forward is a broad-based, collaborative effort to promote more sustainable forms of development in Erie and Niagara counties (the Buffalo Niagara Region) in land use, transportation, housing, energy and climate, access to food, and more. The primary deliverable of One Region Forward will be a Regional Plan for Sustainable Development, a federally recognized document that will give our region priority status for funding opportunities. It will serve as a basis for improving mobility, promoting more efficient land use patterns, strengthening our basic infrastructure, and growing the economy.

Looking at infrastructure, the ongoing Facility Consolidation Study is an opportunity for potential savings for Metro. The study is expected to be complete in fiscal 2015. The Light Railcar Mid-life Rebuild, a project to rehabilitate all 27 railcars that have been in service for over 25 years, and extends the life of the fleet for another 20 years, continues to progress. These improvements are being accomplished in New York State, adding to the State's economic development.

Aviation

BNIA, the Authority's second largest strategic business unit, serves over 5 million passengers. This marks the eighth straight year of that level of passengers, a milestone that was not predicted until 2020. To accommodate growth, BNIA's Long Term Lot B was expanded in fiscal 2014 to accommodate an additional 988 cars. BNIA also continues to progress on the $56.8 million Noise Mitigation Projects that will continue for the next two years. These projects are fully funded by the FAA, New York State and Passenger Facility Charges.

Located just five miles from Niagara Falls, the NFIA has been a catalyst for economic development. Since the completion of the new terminal building in 2009, the number of enplanements has grown significantly. This has resulted in a 25.9% increase of passengers from fiscal 2014, as NFIA hit the 0.2 million level of annual passengers for the first time. Overall, the Aviation Division continues to work on ways to increase revenues and attract more air service to NFIA.

A Master Plan for NFIA will be completed in fiscal 2015, including an overall Aviation Strategic Plan that considers the growth and positioning of both BNIA and NFIA. This will help shape the direction of the Authority's aviation system as a whole.

The Authority anticipates, in July 2014, issuing Airport Revenue Refunding bonds (Refunding Bonds). The Refunding bonds will refund approximately $88,785 par value of outstanding debt estimated to yield debt service savings of approximately $.7million annually from fiscal years 2016 - 2029.

Property Development

The Property Development Division serves as the Authority-wide provider of real estate services, managing over 2,000 acres of property throughout Erie and Niagara counties. It is responsible for the Authority's non-public transportation assets, including the NFTA Boat Harbor, the largest recreational boat harbor in New York State with over 1,000 slips.

The Authority owns 400 acres of waterfront property on the outer harbor of the City of Buffalo, including a 1,000 slip boat harbor. Effective May 11, 2014 this property, including the boat harbor, was transferred to the Erie Canal Harbor Development Corporation and New York State Office of Parks, Recreation and Historic Preservation for $2. Under the terms of the agreement, the Authority will continue to operate the boat harbor until November 2014.

Additionally, in accordance with the Board of Commissioners' intention to divest properties that are not in concert with the Authority's transportation mission, purchase offers for the sale of Port Terminals A & B are currently under review.

CONTACT FOR THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

Balance Sheets (In thousands)

March 31,	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 25,104	$ 28,200
Accounts receivable, net of allowance for doubtful accounts of $95 and $196 in 2014 and 2013	6,155	5,427
Grants receivable	25,085	19,848
Materials and supplies inventory	4,159	3,971
Prepaid expenses and other	517	368
	61,020	57,814
Restricted assets:		
Cash and cash equivalents	46,887	44,978
Investments	25	25
	46,912	45,003
Prepaid bond insurance	1,543	1,683
Capital assets, net (Note 4)	673,651	704,338
	722,106	751,024
Total assets	$ 783,126	$ 808,838
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 12,875	$ 18,938
Accounts payable and accrued expenses	29,913	30,089
Customer deposits	3,159	2,601
Other liabilities	6,830	6,052
	52,777	57,680
Noncurrent liabilities:		
Fair value of swap agreements	5,043	7,333
Long-term debt	141,101	151,461
Other postemployment benefits	104,146	90,048
Payable to NYS Retirement	6,068	4,719
Estimated liability for self-insured claims	34,127	32,135
	290,485	285,696
Total liabilities	343,262	343,376
Net position		
Net investment in capital assets	519,675	533,939
Restricted	40,082	54,631
Unrestricted	(119,893)	(123,108)
Total net position	439,864	465,462
Total liabilities and net position	$ 783,126	$ 808,838

See accompanying notes.

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

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

For the years ended March 31,	2014	2013
Operating revenues:		
Fares	$ 36,714	$ 36,489
Concessions and commissions	29,035	30,203
Rental income	15,976	14,877
Airport fees and services	16,874	16,137
Tenant reimbursements	1,651	1,668
Boat harbor fees	1,215	1,145
Retail sales	399	377
Other operating revenues	3,476	3,963
Total operating revenues	105,340	104,859
Operating expenses:		
Salaries and employee benefits	118,144	118,351
Other postemployment benefits	18,123	17,028
Depreciation	53,021	56,274
Maintenance and repairs	18,587	16,420
Transit fuel and power	8,106	8,219
Utilities	6,358	5,101
Insurance and injuries	4,292	4,374
Safety and security	11,695	11,255
Other	13,521	13,396
Total operating expenses	251,847	250,418
Operating loss	(146,507)	(145,559)
Non-operating revenues (expenses):		
Operating assistance	101,190	96,137
Passenger facility charges	10,176	10,876
Change in fair value of swap agreements	2,289	285
Interest expense, net	(7,782)	(8,330)
Airport noise abatement	(7,291)	(5,089)
Other non-operating expense, net	(1,383)	(5,599)
Total net non-operating revenues	97,199	88,280
Loss before capital contributions	(49,308)	(57,279)
Capital contributions	23,710	48,410
Change in net position	(25,598)	(8,869)
Net position, beginning of year	465,462	474,331
Net position, end of year	$ 439,864	$ 465,462

Statements of Cash Flows (In thousands)

For the years ended March 31,	2014	2013
Operating activities:		
Cash collected from customers	$ 105,168	$ 105,460
Cash paid for employee wages and benefits	(120,469)	(117,352)
Cash paid to vendors and suppliers	(58,817)	(49,768)
Cash paid for insurance and injuries	(2,300)	(3,501)
Net operating activities	(76,418)	(65,161)
Non-capital financing activities:		
Operating assistance	101,190	96,137
Capital and related financing activities:		
Repayments of long-term debt	(18,938)	(13,666)
Proceeds from issuance of new long-term debt	2,515	-
Escrow funds, net	314	214
Interest paid	(7,938)	(8,463)
Mortgage recording tax	464	1,134
Capital grants and contributions	18,473	45,931
Additions to capital assets	(22,453)	(47,022)
Construction retainages, net	(311)	169
Proceeds from sale of capital assets	166	111
Passenger facility charges	10,176	10,876
Airport noise abatement	(7,291)	(5,089)
Other	(1,292)	(5,538)
Net capital and related financing activities	(26,115)	(21,343)
Investing activities:		
Interest income	156	133
Net change in cash and cash equivalents	(1,187)	9,766
Cash and cash equivalents, beginning of year	73,178	63,412
Cash and cash equivalents, end of year	$ 71,991	$ 73,178
Reconciliation to Balance Sheets		
Cash and cash equivalents:		
Unrestricted	$ 25,104	$ 28,200
Restricted	46,887	44,978
Total cash and cash equivalents	$ 71,991	$ 73,178
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (146,507)	$ (145,559)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	53,021	56,274
Other postemployment benefits, net	14,098	12,324
Changes in assets and liabilities:		
Receivables	(728)	583
Materials and supplies inventory	(188)	163
Prepaid expenses and other	(149)	222
Accounts payable and accrued expenses	136	5,841
Customer deposits	558	20
Estimated liability for self-insured claims	1,992	873
Payable to NYS Retirement	1,349	4,098
Net cash used for operating activities	$ (76,418)	$ (65,161)

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

The Authority, including Metro, is governed by a 13 member Board of Commissioners (the Board) appointed by the Governor of New York State (the State), with the consent of the New York State Senate. The Board governs and sets policy for the Authority. The Executive Director, subject to policy direction and delegations from the Board, is responsible for all activities of the Authority.

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's charter requires that it operate under an approved annual balanced consolidated budget. Therefore, its basic mode of operations calls for transfers, if necessary, within business centers that produce a surplus to those that incur a deficit.

The Authority follows the requirements of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*, as well as GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, and GASB Statement No. 14, *The Financial Reporting Entity*, which provide guidance to determine whether an affiliated organization is considered a component unit of a financial reporting entity. Based on its financial and governance responsibility for Metro, the Authority reports Metro as a blended component unit. The Authority is included in the financial statements of the State as an enterprise fund.

(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 GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's financial statement presentation is prepared in accordance with the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, amended by the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature.

The Authority reports as a special purpose government engaged in business-type activities, as defined by GASB Statement No. 34, *Financial Statements – and Management's Discussion and Analysis-For State and Local Governments,* 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 and include government funding and investment income.

Authority Operations

The Authority operates the following three strategic business centers:

Aviation

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

Property Management

The Property Management Department manages more than 2,000 acres of real estate. This includes the NFTA Boat Harbor, Outer Harbor property, rail right of ways, and non-public transportation assets, including industrial warehouse distribution and associated office space for lease.

<u>Surface Transportation</u>

Metro Operations

Metro provides the following operations:

MetroLink, a fixed route scheduled service providing community access to jobs, and a paratransit program for disabled persons.

A seasonal/tourist-oriented service operating replica trolley vehicles over a fixed loop route in the City of Niagara Falls.

A light rail system between downtown Buffalo and the State University of New York at Buffalo.

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

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

(b) Cash and Cash Equivalents

Cash and cash equivalents principally include cash on hand, money market funds, certificates of deposit, U.S. Treasury bills and repurchase agreements with an initial term of less than three months.

(c) Investments

The Authority's investment policies comply with the New York State Comptroller's guidelines for Public Authorities. Investments consist primarily of obligations of the U.S. Government valued at cost, which approximates fair value. Securities are held by the banks in the Authority's name.

(d) 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 includes landing and terminal ramp fees. Rental income includes building and ground space rented to the airlines and air cargo carriers, among others. Operating revenues from concessions and commissions include parking fees and rental of retail space. These sources of operating revenues are recognized upon provision of services.

(In thousands)

Commissions from auto rental companies are recognized based upon monthly percentage of revenues earned during the contractual year with an annual adjustment for any minimum annual guaranteed fees.

Capital contributions are recorded when requests are submitted to funding agencies for reimbursement of capital expenditures incurred.

Non-operating revenues consist primarily of various federal, state and local operating subsidies which are recognized when all applicable eligibility requirements are met.

(e) Materials and Supplies Inventory

Materials and supplies inventory is valued based on the weighted average cost method.

(f) 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 light rail rapid transit 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.

(g) Bond Costs

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

(h) Capital Assets

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

	Estimated Useful Life
Metropolitan Transportation Centers	25
Improvements	20-25
Buildings	20-45
Light Rail Rapid Transit System	10-45
Motor buses	12
Marine terminals, docks, and wharves	10-40
Equipment and other	3-10

Maintenance and repairs are charged to operations as incurred.

(i) Compensated Absences

Authority employees are granted vacation and sick leave in varying amounts in accordance with collective bargaining agreements or Authority policy. The Authority provides for vacation, sick and compensatory time attributable to services already rendered and vested. The liabilities are determined based on employees' year end pay rates and included in other liabilities in the balance sheets.

(j) Customer Deposits and Mortgage Recording Tax Revenue

Operating revenues received in advance of services provided are recorded as customer deposits.

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

(k) 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. Certain assets are intended to fund, in part, the ultimate settlement of such claims. The Authority also maintains excess liability insurance.

(l) Other Liabilities (Escrow Funds)

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, 2014 and 2013, net advance payment provided by the FHWA for regional construction projects authorized by NITTEC and the FHWA totaled $4,972 and $4,714 and are recorded as other liabilities in the balance sheets.

(m) Pensions

The Authority provides retirement benefits to substantially all employees through various defined benefit retirement plans (Note 9).

(n) Postemployment Benefits

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

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

(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 payments made in lieu of tax agreements.

(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) Derivative Instruments

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

As of March 31, 2014 and 2013, the negative fair values of all investment and ineffective derivative instruments totaled $5,043 and $7,333, respectively, and are recorded as noncurrent liabilities in the statements of net position. Negative fair value decreases of $2,290 and $285 for 2014 and 2013 are recorded as non-operating revenues in the statements of revenues, expenses and changes in net position (Note 5).

To reduce its exposure to rising fuel costs, the Authority has entered into a contract that fixes the prices of certain vehicle fuels purchased from September 1, 2011 through August 31, 2014, with the right to extend for two additional one year periods. It is probable the Authority will take delivery of the fuel as specified and, therefore, the contract is considered a normal purchase contract and not subject to the requirements of GASB Statement No. 53.

(r) Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position Restatement

For the year ended March 31, 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 63 amends the net asset reporting requirement in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure as net position, rather than net assets. GASB Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

(s) Reclassification

Certain amounts relating to the financial statements as of and for the year ended March 31, 2013 have been reclassified to be consistent with the current year's presentation.

(3) Cash Deposits and Investments

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government 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, 2014 and 2013, none of the Authority's bank deposits were exposed to custodial credit risk.

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

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

(In thousands)

(4) Capital Assets

	April 1, 2013	Additions	Reclassifications and Disposals	March 31, 2014
Non-depreciable capital assets:				
Land	$ 63,137	$ -	$ -	**$ 63,137**
Construction in progress	33,505	-	(3,374)	**30,131**
Total non-depreciable capital assets	96,642	-	(3,374)	**93,268**
Depreciable capital assets:				
Land improvements	344,464	3,435	(8,006)	**339,893**
Light rail rapid transit (LRRT) system	611,126	11,877	(7,290)	**615,713**
Airport buildings	270,672	2,631	(2,094)	**271,209**
Metropolitan transportation centers	20,849	-	(3)	**20,846**
Marine terminals, docks, and wharves	27,433	6	(871)	**26,568**
Motor buses	134,560	3,141	(1,289)	**136,412**
Equipment, buildings, and other	134,860	4,809	(3,117)	**136,552**
Total depreciable capital assets	1,543,964	25,899	(22,670)	**1,547,193**
Accumulated Depreciaton:				
Land improvements	201,420	16,296	(8,006)	**209,710**
LRRT system	431,847	9,962	(7,106)	**434,703**
Airport buildings	104,167	9,005	(2,088)	**111,084**
Metropolitan transportation center	14,380	461	(3)	**14,838**
Marine terminals, docks, and wharves	25,028	444	(875)	**24,597**
Motor buses	69,344	10,310	(1,289)	**78,365**
Equipment, buildings, and other	90,082	6,543	(3,112)	**93,513**
Total accumulated depreciation	936,268	53,021	(22,479)	**966,810**
Total depreciable assets, net	607,696	(27,122)	(191)	**580,383**
	$ 704,338	$ (27,122)	$ (3,565)	**$ 673,651**

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

Notes to Financial Statements

March 31, 2014 and 2013

(In thousands)

	April 1, 2012	Additions	Reclassifications and Disposals	March 31, 2013
Non-depreciable capital assets:				
Land	$ 62,572	$ 565	$ -	$ 63,137
Construction in progress	40,630	-	(7,125)	33,505
Total non-depreciable capital assets	103,202	565	(7,125)	96,642
Depreciable capital assets:				
Land improvements	311,963	32,501	-	344,464
Light rail rapid transit (LRRT) system	607,998	3,305	(177)	611,126
Airport buildings	267,888	2,784	-	270,672
Metropolitan transportation centers	20,849	-	-	20,849
Marine terminals, docks, and wharves	27,566	(133)	-	27,433
Motor buses	130,534	10,009	(5,983)	134,560
Equipment, buildings, and other	133,590	4,943	(3,673)	134,860
Total depreciable capital assets	1,500,388	53,409	(9,833)	1,543,964
Accumulated depreciaton:				
Land improvements	187,098	14,322	-	201,420
LRRT system	417,071	14,953	(177)	431,847
Airport buildings	99,445	4,722	-	104,167
Metropolitan transportation center	13,908	472	-	14,380
Marine terminals, docks, and wharves	19,977	5,051	-	25,028
Motor buses	64,886	10,441	(5,983)	69,344
Equipment, buildings, and other	87,442	6,313	(3,673)	90,082
Total accumulated depreciation	889,827	56,274	(9,833)	936,268
Total depreciable assets, net	610,561	(2,865)	-	607,696
	$ 713,763	$ (2,300)	$ (7,125)	$ 704,338

(In thousands)

(5) Long-Term Debt

(a) Long-term Obligations

	2014	2013
(1) 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	**$ 37,625**	$ 40,700
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	**5,950**	6,425
(2) Airport Revenue Bonds 1999:		
Series A, maturing April 1, 2029 with variable annual principal payments commencing April 1, 2004, bearing interest at 4.75% to 5.875% (net of unamortized discount of $1,266 in 2014 and $1,318 in 2013)	**63,403**	66,323
Series B, maturing April 1, 2019 with variable principal payments commencing April 1, 2016, bearing interest at 5.50% (net of unamortized discount of $75 in 2014 and $91 in 2013)	**13,700**	13,685
(3) Airport Revenue Bonds 1998, maturing April 1, 2028, with variable annual principal payments commencing April 1, 2001, bearing interest at 4.10% to 5.00% (net of unamortized discount of $299 in 2014 and $318 in 2013)	**13,842**	14,447
(4) Payable to the State, non-interest bearing	**3,380**	3,380

NIAGARA FRONTIER TRANSPORTATION AUTHORITY
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Notes to Financial Statements
March 31, 2014 and 2013
(In thousands)

	2014	2013
(5) Capital leases, monthly payments with fixed interest rates ranging from 4.19% to 6.59%, maturing in 2019, secured by related equipment and a junior lien on net airport revenues	$ 1,646	$ 1,905
(6) Airport Revenue bonds, EFC series 2000, for glycol containment, issued to New York State Environmental Facilities Corporation (EFC) maturing January 15, 2020 with variable annual principal payments, bearing interest at 5.492% to 5.742%, offset by a variable refunding interest credit provided by EFC (NYS EFC Series 2011A)	1,395	1,600
(7) Bank Loan for BNIA Capital Projects, monthly payments with variable interst based on the 30 day LIBOR rate plus 225 basis points and fixed principal payments, maturing in 2015, secured by certain non-real estate property	3,357	6,929
(8) Capital lease, monthly paayments with fixed interest rate of 4.27%, maturing in 2020, secured by related equipment	1,616	1,851
(9) Capital lease, monthly payments with fixed interest rate of 4.27%, maturing in 2020, secured by related equipment	4,113	4,207
(10) Bank loan for NFIA New Terminal Project, monthly payments with variable interest based on the 30 day LIBOR rate plus 265 basis points and fixed principal payments, maturing in 2015, secured by certain non-real estate property	1,424	3,324
(11) Loan, monthlu payments with fixed interst rate at 4%, maturing in 2013, unsecured	-	108
(12) Capital lease, monthly payments with fixed interest rate of 5.5%, maturing in 2016, secured by related equipment	10	15
(13) Revolving line of credit for NYS Dedicated Transit Funds with variable interest rate of LIBOR plus 1.69%, repaid May 16, 2013	-	5,500
(14) Capital lease, monthly payments with fixed interst rate of 2.57%, maturing in 2022, secured by related property	2,515	-
	153,976	170,399
Less current portion	12,875	18,938
	$ 141,101	$ 151,461

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

(1) On January 15, 2004, the Authority issued $63,000 in Series 2004A and $10,025 in 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 advance refund the Series 1994A and the Series 1994C Airport Revenue Bonds of $55,435 and $9,765 with interest rates ranging from 5.70% to 6.25% for Series 1994A and 5.50% to 6.00% for Series 1994C, respectively.

(2) On September 17, 1999, the Authority issued $102,110 of additional Airport Revenue Bonds to provide funding for the continued expansion of the BNIA. The bonds were issued as a supplement to the 1994 and 1998 bond issuance with similar provisions. These bonds were sold at a discount of $1,582 which is being amortized using the interest method over the life of the bonds.

(3) On August 25, 1998, the Authority issued $20,375 of additional Airport Revenue Bonds to provide funding for the expansion of the BNIA. The bonds were issued as a supplement to the 1994 bond issuance with similar provisions. These bonds were sold at a discount of $546 which is being amortized using the interest method over the life of the bonds.

(4) 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. 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 2030 through 2034 due to the uncertainty of repayment.

The Airport Revenue Bonds from 2004, 1999, 1998, and EFC Series 2000, are payable from and secured by a lien against net revenues derived from the operations of the BNIA. Payment of scheduled bond principal and interest payments are also guaranteed by municipal bond insurance policies maintained by the Authority. The bonds are special limited obligations of the Authority. They are neither general obligations of the Authority nor a debt of the State or any political subdivision.

(In thousands)

Changes in long-term debt for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Balance, beginning of year	$ 170,399	$ 184,065
Proceeds from issuance of debt	2,515	-
Repayment of long-term debt, net of discount amortization	(18,938)	(13,666)
Balance, end of year	153,976	170,399
Less current portion	12,875	18,938
Noncurrent portion	$ 141,101	$ 151,461

Required principal and interest payments for long-term debt, net of unamortized discounts, are as follows:

	Loans and Capital Leases		Serial Bonds		
	Principal	**Interest**	**Principal**	**Unamortized Discount**	**Interest**
Years ending March 31,					
2015	$ 5,257	$ 569	$ 7,710	(92)	$ 6,662
2016	1,243	474	7,940	(97)	6,438
2017	967	432	8,475	(99)	5,928
2018	1,016	391	8,710	(101)	5,643
2019	1,066	346	9,245	(98)	5,140
2020 - 2024	2,495	1,270	51,955	(504)	18,866
2025 - 2029	1,293	792	36,360	(649)	7,344
2030 - 2034	4,724	207	7,160	-	201
	$ 18,061	$ 4,481	$ 137,555	$ (1,640)	$ 56,222

At March 31, 2014 and 2013, 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 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. The Authority experienced an unfavorable basis variance of $2,137 and $2,029 for the years ending March 31, 2014 and 2013, respectively.

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

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, 2014, the fair value of the Series 2004A and 2004C interest rate swaps was a negative fair value of $4,379 and $664, respectively. At March 31, 2013, the fair value of the Series 2004A and 2004C interest rate swaps was a negative fair value of $6,356 and $977, respectively. The combined negative fair values of $5,043 and $7,333 were recorded in accordance with the provisions of GASB 53. At March 31, 2014, the notional amounts of Series 2004A and 2004C swaps were $37,625 and $5,950, respectively. At March 31, 2013, the notional amounts of Series 2004A and 2004C swaps were $40,700 and $6,425, respectively. The terms of the interest rate swaps will remain in effect until the bonds are fully matured on April 1, 2024 or a 10 year investment maturity.

The Authority evaluated the effectiveness of the interest rate swap derivatives that existed at the end of the reporting period. Due to the risks inherently noted above, the Series 2004A and 2004C interest rate swaps as of March 31, 2012 were considered ineffective because they did not meet the effectiveness criteria under the synthetic instrument method (SIM) quantitative method of evaluating effectiveness. Therefore, changes in the fair value of the swaps are recorded as derivative instrument losses in the statements of revenues, expenses and changes in net position for 2012 and all future periods.

(In thousands)

(6) Unearned Mortgage Recording Tax 88(c) Revenue

Changes in unearned mortgage recording tax revenues for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Balance, beginning of year	$ 1,394	$ 260
Receipts of funds	5,817	6,100
Interest income	1	3
Light rail capital and operating expenditures	(5,354)	(4,969)
Balance, end of year	$ 1,858	$ 1,394

(7) Passenger Facility Charges

In 1992, the Federal Aviation Administration (FAA) approved the Authority's application to impose collection of Passenger Facility Charges (PFC) at the BNIA. PFCs used specifically for FAA approved projects at the BNIA and included in non-operating revenues totaled $10,176 and $10,876 for the years ended March 31, 2014 and 2013.

(In thousands)

(8) Operating Assistance

Operations are funded primarily by farebox revenues from passengers 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, 2014 and 2013 was as follows:

	2014	2013
Metro:		
FTA:		
Section 5307 and 5311 assistance	$ 14,681	$ 10,628
Section 5307 capital maintenance	429	408
Other	1,909	2,353
Total FTA	17,019	13,389
State:		
Statewide transit operating assistance program	40,827	40,827
Section 18b assistance	4,100	4,100
Section 5307 capital maintenance match	1,882	1,373
Other	210	236
Total State	47,019	46,536
Erie County:		
88(c) – general	4,750	4,012
Mortgage recording tax (section 88a)	7,129	7,187
Section 18b matching funds	3,657	3,657
Sales tax receipts	18,926	18,295
Total Erie County	34,462	33,151
Niagara County:		
Mortgage recording tax	1,167	1,070
Section 18b matching funds	443	443
Total Niagara County	1,610	1,513
Buffalo and Fort Erie Public Bridge Authority	200	200
	100,310	94,789
NFTA:		
Department of Homeland Security	872	1,345
Department of Justice	8	3
	880	1,348
	$ 101,190	$ 96,137

(9) Retirement Plans

(a) New York State Retirement System

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

As set forth in the NYSRSSL, the Comptroller of the State (the Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the Systems and for the custody and control of their funds. The Systems issue publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12236, or on the internet at www.osc.state.ny.us/retire.

No employee contributions are required for those whose service began prior to July 1976. The Systems require employee contributions of 3% of salary for the first 10 years of service for those employees who joined the Systems from July 1976 through December 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 3-6% for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. The rates range from 10.1% to 28.8% of annual covered payroll over the past three years.

The Authority's contributions to the Systems for the years ended March 31, 2014, 2013 and 2012 were $6,162, $5,897 and $5447, respectively. The Authority contributions made to the Systems were equal to 100% of the contributions required for each year.

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

Plan Description

All full-time Metro employees who are ATU members are covered by the Amalgamated Transit Union Local 1342 Niagara Frontier Transit Metro System Pension Fund (the ATU Plan), a defined benefit pension plan established in accordance with an Agreement and Declaration of Trust between the ATU and Metro (the Agreement). Pursuant to the ATU Union Contract signed in 1993, a portion of part-time employee compensation is also contributed by Metro to the ATU Plan, although part-time employees do not participate in or benefit from the ATU Plan.

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

Funding Requirement

Each eligible employee is required to contribute the greater of sixteen dollars or 4% of their weekly 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 changes in net position, pursuant to the CBA, totaled $5,448 and $5,478 for 2014 and 2013. 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.

(In thousands)

(c) *Metro Nonunion Retirement Plan*

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 obliges the Authority to make $465 additional annual contributions commencing December 1997 to ERS (in addition to its regular employer contribution) each year for 25 years, and to amortize the liability assumed by ERS for benefits attributable to the former Metro Plan participants' pre-transfer service. The Metro Plan was amended as of January 1, 1998, at which time the plan was frozen.

The Authority's annual pension cost and net pension obligation of the Metro Nonunion Plan for the years ended March 31 were as follows for the plan year which encompasses January 1 through December 31:

	2014	2013
Annual required contribution	$ (432)	$ (567)
Interest on net pension asset	(31)	(24)
Adjustment to annual required contribution	31	24
Annual pension cost	(432)	(567)
Contributions made	73	576
Decrease (increase) in net pension asset	(359)	9
Net pension asset, beginning of year	(567)	(576)
Net pension asset, end of year	$ (926)	$ (567)

The annual required contribution was determined using the Unit Credit Actuarial Cost Method. The actuary assumed a 4.75% investment rate of return, mortality rates based on the Applicable Mortality Table for the Valuation Year, and retirement age 62 with 5 years of service.

At December 31, 2013, on the basis for actuarial assumptions used for funding purposes, the actuarial value of the plan assets of $5,094 is lower than the actuarial accrued liabilities of $5,457.

(10) Postemployment Benefits

Postemployment Health Care

The Authority provides a defined benefit postemployment health care plan (the Plan) for essentially all full-time employees with a minimum of ten years service upon retirement. Upon retirement, most Authority employees are provided 50% of the medical insurance premiums while certain management employees hired prior to February 2004 are provided with continuation of full medical coverage.

Metro retirees are provided with a monthly stipend representing the insurance premium amount of a single medical coverage if they retired prior to January 1, 2004. If they retired subsequent to January 1, 2004, Metro retirees are provided with continuation of full medical coverage.

GASB Statement No. 45 requires the recognition of the costs of postemployment benefits 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.

(In thousands)

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 years ended March 31, 2014 and 2013:

	2014	2013
Annual required contribution		
Normal cost	**$ 7,734**	$ 7,275
Amortization of UAAL	**11,943**	11,088
Annual required contribution	**19,677**	18,363
Interest on OPEB obligation	**4,266**	3,665
Adjustment to ARC	**(5,820)**	(5,000)
Annual OPEB cost	**18,123**	17,028
Employer contributions	**(4,483)**	(3,677)
Increase in net OPEB obligation	**13,640**	13,351
Net OPEB obligation, beginning of year	**94,794**	81,443
Net OPEB obligation, end of year	**$ 108,434**	$ 94,794

The Authority's total annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the years ended March 31, 2012 through March 31, 2014 were:

March 31,	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 18,123	24.74%	$ 108,434
2013	$ 17,028	21.59%	$ 94,794
2012	$ 21,389	18.98%	$ 81,443

The actuarial analysis supporting the GASB 45 obligation for 2014 was completed using an interim valuation date of April 1, 2013. As of that date, the total actuarial accrued liability (UAAL) for future benefits was $48,320 for the Authority and $158,745 for Metro, all of which is unfunded. These projections are based on the April 1, 2012 census data, claims information and the impact of healthcare reform. The covered payroll (annual payroll of active employees covered by the plan) was $84,348, and the ratio of the UAAL to the covered payroll was 245.5%.

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.

(In thousands)

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:

- Healthcare cost trend is estimated at 7.75% next year, ultimately declining to 5% in year 2023 and remaining level thereafter
- Actuarial cost method used is Projected Unit Credit
- Discount rate is 4.50%
- Amortization method is 30 years, open, level dollar method
- RP-2000 Mortality Table for annuitants and nonannuitants with projected mortality improvements using scale AA

Postemployment Stipends

As of March 31, 2014, there are 214 retirees within Metro who retired prior to January 1, 2004. Each retiree is provided with a cash stipend equivalent to the single medical premium cost and, if enrolled in Medicare, the retiree also is provided with full Medicare reimbursement. The retiree has the option of any combination of cash stipend and/or health insurance continuation.

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

	2014	2013
Annual required contribution	**$ 2,805**	$ 1,724
Interest on net pension cost	**(190)**	(149)
Adjustment to ARC	**506**	215
Annual pension cost	**3,121**	1,790
Employer contributions	**(2,663)**	(2,817)
(Decrease) Increase in net pension asset	**458**	(1,027)
Net pension asset, beginning of year	**(4,746)**	(3,719)
Net pension asset, end of year	**$ (4,288)**	$ (4,746)

The actuarial accrued liability at March 31, 2014 and 2013 was $24,665 and $26,328, respectively, all of which is unfunded. The net pension asset of $4,288 and $4,746 as of March 31, 2014 and 2013, respectively, has been recorded as a net noncurrent liability on the statements of net position as other postemployment benefits. The current policy is to fund on the "pay as you go" basis.

(In thousands)

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

- Healthcare cost trend is estimated at 8% next year declining 1% per year through 2017 For pre-age 65; 6.5% next year declining to 5% through 2017 for post-age 65
- Actuarial cost method used is Projected Unit Credit
- Discount rate is 4%
- Amortization method is 30 years, open, level dollar method
- RP-2000 Tables for Healthy Male and Female Retirees with mortality improvements using scale AA

(11) Leases

A substantial portion of the Authority's revenue is generated by a number of fixed-term operating leases at its airport, marine and transportation center facilities. The leases generally provide for rentals determined on the basis of a rate per square foot occupied or a percentage of the lessee's gross revenues with guaranteed minimum amounts. Total revenue from leases was $59,980 and $60,722 in 2014 and 2013, including guaranteed minimum rentals of $22,740 and $24,570 during 2014 and 2013, respectively.

Fixed-term operating leases in effect at March 31, 2014 are expected to yield minimum rentals in future years as follows:

2015	$ 21,867
2016	20,967
2017	20,703
2018	17,505
2019	11,357
2020 - 2024	13,172
2025 - 2029	9,167
2030 - 2034	1,108
2035 - 2039	896
2040 - 2044	568
	$ 117,310

(12) Commitments and Contingencies

(a) Litigation and Claims

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

(In thousands)

(b) Self-Insured Claims

The Authority assumes the liability for most risks including, but not limited to, property damage, environmental claims, personal injury claims, and workers' compensation claims. Estimated liabilities for these claims, which are not covered by insurance, have been reflected in the financial statements. Workers Compensation liabilities are estimated based on an actuarial valuation dated April 16, 2014. Other self-insured liabilities are estimated by the Authority based on available information. Management believes that such liabilities are adequate based upon historical experience and the opinions of internal risk management administrators and legal counsel.

Changes in the reported liability claims for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Liability, beginning of year	**$ 32,135**	$ 31,262
Current year claims and change in estimate	**9,905**	10,229
Claim payments	**(7,913)**	(9,356)
Liability, end of year	**$ 34,127**	$ 32,135

The Authority is subject to various federal, state, and local laws and regulations relating to the protection of the environment. The Authority has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and assure compliance with regulatory policies and procedures.

Environmental expenditures that relate to current operations are expensed or capitalized in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with notification by an outside agency, determination of the need for a feasibility study, or the Authority's commitment to a formal plan of action based on completion of the feasibility study. The Authority currently has no accrued environmental liabilities.

(c) Project Commitments

As of March 31, 2014, the Authority has commenced several projects including:

- NFIA runway 10L/28R mill and overlay improvements estimated at $21,004 of which $18,355 was expended
- BNIA noise abatement program estimated at $54,306 of which $43,732 was expended (expenditures are classified as non-operating expenses in the statements of revenues, expenses and changes in net position)
- Rail car refurbishment estimated at $45,564 of which $25,824 was expended
- BNIA Long Term Lot B expansion estimated at $5,010 of which $4,469 was expended
- Metro (Bus and Rail) fare collection upgrade $691 of which $1 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.

(In thousands)

(13) Segment Information – Buffalo Niagara International Airport

BNIA is Western New York's primary passenger and cargo airport. In fiscal year 1991, the Authority began the Airport Improvement Program to build a new terminal building and provide improved facilities for BNIA passengers. The Authority issued Airport Revenue Bonds (Note 5) pursuant to a Master Resolution approved by Board of Commissioners for the construction of the 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 the 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) Condensed Balance Sheets (BNIA)

	2014	2013
Assets:		
Current	**$ 42,564**	$ 46,305
Capital assets, net	**265,770**	278,343
Other	**54,343**	50,936
Total assets	**$ 362,677**	$ 375,584
Liabilities:		
Current liabilities	**$ 18,251**	$ 17,063
Long-term liabilities	**141,156**	153,615
Total liabilities	**$ 159,407**	$ 170,678
Net position:		
Net investment in capital assets	**$ 121,630**	$ 123,303
Restricted	**36,804**	49,253
Unrestricted	**44,836**	32,350
Total net position	**$ 203,270**	$ 204,906

Included in current and other assets are airport revenue bond fund accounts and other cash and deposit accounts totaling $33,868 and $22,555 for the fiscal year ended March 31, 2014 and $29,879 and $20,637 for the fiscal year ended March 31, 2013, respectively.

(In thousands)

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

	2014	2013
Operating revenues:		
Concessions and commissions	$ 27,400	$ 28,880
Airport fees and services	16,775	16,095
Rental income	10,682	9,955
Other	4,000	4,458
Total operating revenues	58,857	59,388
Operating expenses	40,287	37,922
Depreciation expense	20,026	20,510
Operating income (loss)	(1,456)	956
Non-operating revenues (expenses):		
Change in fair value of swap agreements	2,289	285
Interest expense, net	(7,133)	(7,615)
Passenger facility charges	10,176	10,876
Airport noise abatement	(7,291)	(5,089)
Other, net	(6,231)	(5,470)
Loss before capital contribution	(9,646)	(6,057)
Capital contributions	8,010	8,355
Change in net position	(1,636)	2,298
Net position, beginning of year	204,906	202,608
Net position, end of year	$ 203,270	$ 204,906

(c) Condensed Statements of Cash Flows (BNIA)

	2014	2013
Net cash provided by operating activites	$ 24,104	$ 19,301
Net cash provided by investing activities	141	110
Net cash used in capital and related financing activities	(20,298)	(16,987)
Net increase in cash	3,947	2,424
Cash, beginning of year	50,517	48,093
Cash, end of year	$ 54,464	$ 50,517

(In thousands)

(d) Master Resolution Covenant

Subsection(a) of Section 5.02 of the Master Resolution requires the Authority to charge rates, rentals, fees, and charges 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.

	2014	2013
Airport revenues:		
Operating revenues	$ 58,857	$ 59,388
Interest income	115	104
Gross airport revenues	58,972	59,492
Operating expenses, excluding depreciation	(40,287)	(37,922)
Net airport revenues	18,685	21,570
Net debt service:		
Principal payable	7,350	6,855
Interest payable	7,276	7,620
Passenger facility charges	(2,526)	(2,692)
Net debt service	$ 12,100	$ 11,783
Debt service coverage percentage	154.42%	183.06%
Minimum percentage requirement	125.00%	125.00%

(14) Subsequent Events

The Authority owns 400 acres of waterfront property on the outer harbor area of the City of Buffalo, including a 1,000 slip boat harbor. Effective May 11, 2014, this property, including the boat harbor, was transferred to the Erie Canal Harbor Development Corporation and New York State Office of Parks, Recreation and Historic Preservation for $.002. Under the terms of the agreement, the Authority will continue to operate the boat harbor, receive all revenues and pay all operating costs, until November 2014. At March 31, 2014, capitalized acquisition costs related to this property have a net asset value of $13,202.

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

For the year ended March 31, 2014

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
4/1/2008	$ -	$ 163,267	$ (163,267)	0%	$ 78,203	208.8%
4/1/2010	$ -	$ 226,304	$ (226,304)	0%	$ 83,823	270.0%
4/1/2012	$ -	$ 194,540	$ (194,540)	0%	$ 82,536	235.7%

Postemployment Stipends

Actuarial Valuation Date	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Deficiency of Assets over UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
4/1/2011	$ -	$ 31,682	$ (31,682)	0%	$ -	0.0%
4/1/2012	$ -	$ 29,814	$ (29,814)	0%	$ -	0.0%
4/1/2013	$ -	$ 26,328	$ (26,328)	0%	$ -	0.0%

Metro Nonunion Retirement Plan

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
1/1/2012	$ 4,239	$ 5,127	$ (888)	83%	n/a	0.0%
1/1/2013	$ 4,735	$ 5,137	$ (402)	92%	n/a	0.0%
1/1/2014	$ 5,094	$ 4,792	$ 302	106%	n/a	0.0%

Additional Information
Combining Balance Sheets (In thousands)

March 31,	2014			2013		
	NFTA	**Metro**	**Total**	NFTA	Metro	Total
Assets						
Current assets:						
Cash and cash equivalents	**$ 23,335**	**$ 1,769**	**$ 25,104**	$ 19,874	$ 8,326	$ 28,200
Accounts receivable, net	**4,695**	**1,460**	**6,155**	4,097	1,330	5,427
Grants receivable	**3,041**	**22,044**	**25,085**	4,684	15,164	19,848
Due to/from affiliate	**(5,228)**	**5,228**	**-**	(828)	828	-
Materials and supplies inventory	**4**	**4,155**	**4,159**	17	3,954	3,971
Prepaid expenses and other	**371**	**146**	**517**	223	145	368
	26,218	**34,802**	**61,020**	28,067	29,747	57,814
Restricted assets:						
Cash and cash equivalents	**46,479**	**408**	**46,887**	42,711	2,267	44,978
Investments	**-**	**25**	**25**	-	25	25
	46,479	**433**	**46,912**	42,711	2,292	45,003
Prepaid bond insurance	**1,543**	**-**	**1,543**	1,683	-	1,683
Capital assets, net	**371,687**	**301,964**	**673,651**	390,325	314,013	704,338
	419,709	**302,397**	**722,106**	434,719	316,305	751,024
Total assets	**$ 445,927**	**$ 337,199**	**$ 783,126**	$ 462,786	$ 346,052	$ 808,838
Liabilities						
Current liabilities:						
Current portion of long-term debt	**$ 12,559**	**$ 316**	**$ 12,875**	$ 13,203	$ 5,735	$ 18,938
Accounts payable and accrued expenses	**14,786**	**15,127**	**29,913**	14,818	15,271	30,089
Customer deposits	**1,249**	**1,910**	**3,159**	1,269	1,332	2,601
Other liabilities	**4,972**	**1,858**	**6,830**	4,658	1,394	6,052
	33,566	**19,211**	**52,777**	33,948	23,732	57,680
Noncurrent liabilities:						
Fair value of swap agreements	**5,043**	**-**	**5,043**	7,333	-	7,333
Long-term debt	**139,047**	**2,054**	**141,101**	149,845	1,616	151,461
Other postemployment benefits	**22,485**	**81,661**	**104,146**	20,013	70,035	90,048
Payable to NYS Retirement	**6,068**	**-**	**6,068**	4,719	-	4,719
Estimated liability for self-insured claims	**5,658**	**28,469**	**34,127**	4,930	27,205	32,135
	178,301	**112,184**	**290,485**	186,840	98,856	285,696
Total liabilities	**211,867**	**131,395**	**343,262**	220,788	122,588	343,376
Net position						
Net investment in capital assets	**220,081**	**299,594**	**519,675**	227,277	306,662	533,939
Restricted	**41,507**	**(1,425)**	**40,082**	53,733	898	54,631
Unrestricted	**(27,528)**	**(92,365)**	**(119,893)**	(39,012)	(84,096)	(123,108)
Total net position	**234,060**	**205,804**	**439,864**	241,998	223,464	465,462
Total liabilities and net position	**$ 445,927**	**$ 337,199**	**$ 783,126**	$ 462,786	$ 346,052	$ 808,838

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

For the years ended March 31,	2014			2013		
	NFTA	**Metro**	**Total**	NFTA	Metro	Total
Operating revenues:						
Fares	**$ -**	**$ 36,714**	**$ 36,714**	$ -	$ 36,489	$ 36,489
Concessions and commissions	**29,035**	**-**	**29,035**	30,203	-	30,203
Rental income	**15,976**	**-**	**15,976**	14,877	-	14,877
Airport fees and services	**16,874**	**-**	**16,874**	16,137	-	16,137
Tenant reimbursements	**1,651**	**-**	**1,651**	1,668	-	1,668
Boat harbor fees	**1,215**	**-**	**1,215**	1,145	-	1,145
Retail sales	**399**	**-**	**399**	377	-	377
Other operating revenues	**2,716**	**760**	**3,476**	3,257	706	3,963
Total operating revenues	**67,866**	**37,474**	**105,340**	67,664	37,195	104,859
Operating expenses:						
Salaries and employee benefits	**23,548**	**94,596**	**118,144**	25,011	93,340	118,351
Other postemployment benefits	**3,939**	**14,184**	**18,123**	3,713	13,315	17,028
Depreciation	**27,987**	**25,034**	**53,021**	26,516	29,758	56,274
Maintenance and repairs	**11,004**	**7,583**	**18,587**	10,304	6,116	16,420
Transit fuel and power	**-**	**8,106**	**8,106**	-	8,219	8,219
Utilities	**4,204**	**2,154**	**6,358**	3,426	1,675	5,101
Insurance and injuries	**973**	**3,319**	**4,292**	1,110	3,264	4,374
Safety and security	**7,227**	**4,468**	**11,695**	6,705	4,550	11,255
Other	**10,554**	**2,967**	**13,521**	9,961	3,435	13,396
Administration cost reallocation	**(4,030)**	**4,030**	**-**	(3,807)	3,807	-
Total operating expenses	**85,406**	**166,441**	**251,847**	82,939	167,479	250,418
Operating loss	**(17,540)**	**(128,967)**	**(146,507)**	(15,275)	(130,284)	(145,559)
Non-operating revenues (expenses):						
Operating assistance	**880**	**100,310**	**101,190**	1,348	94,789	96,137
Passenger facility charges	**10,176**	**-**	**10,176**	10,876	-	10,876
Change in fair value of swap agreements	**2,289**	**-**	**2,289**	285	-	285
Interest expense, net	**(7,696)**	**(86)**	**(7,782)**	(8,164)	(166)	(8,330)
Airport noise abatement	**(7,291)**	**-**	**(7,291)**	(5,089)	-	(5,089)
Other non-operating income (expense)	**(1,202)**	**(181)**	**(1,383)**	317	(5,916)	(5,599)
Total net non-operating revenues (expenses)	**(2,844)**	**100,043**	**97,199**	(427)	88,707	88,280
Loss before capital contributions	**(20,384)**	**(28,924)**	**(49,308)**	(15,702)	(41,577)	(57,279)
Capital contributions	**12,446**	**11,264**	**23,710**	28,004	20,406	48,410
Change in net position	**(7,938)**	**(17,660)**	**(25,598)**	12,302	(21,171)	(8,869)
Net position, beginning of year	**241,998**	**223,464**	**465,462**	229,696	244,635	474,331
Net position, end of year	**$ 234,060**	**$ 205,804**	**$ 439,864**	$ 241,998	$ 223,464	$ 465,462

Additional Information
Combining Schedules of Cash Flows (In thousands)

For the years ended March 31,	2014			2013		
	NFTA	**Metro**	**Total**	NFTA	Metro	Total
Operating activities:						
Cash collected from customers	$ 67,246	$ 37,922	$ 105,168	$ 67,854	$ 37,606	$ 105,460
Cash paid for employee wages and benefits	(28,526)	(91,943)	(120,469)	(26,561)	(90,791)	(117,352)
Cash paid to vendors and suppliers	(27,652)	(31,165)	(58,817)	(22,317)	(27,451)	(49,768)
Receipts (payments) to other funds	8,430	(8,430)	-	(321)	321	-
Cash paid for insurance and injuries	(245)	(2,055)	(2,300)	(991)	(2,510)	(3,501)
Net operating activities	19,253	(95,671)	(76,418)	17,664	(82,825)	(65,161)
Non-capital financing activities:						
Operating assistance	880	100,310	101,190	1,348	94,789	96,137
Capital and related financing activities:						
Repayments of long-term debt	(13,957)	(4,981)	(18,938)	(13,441)	(225)	(13,666)
Proceeds from issuance of long-term debt	2,515	-	2,515	-	-	-
Escrow funds, net	314	-	314	214	-	214
Interest paid	(7,839)	(99)	(7,938)	(8,286)	(177)	(8,463)
Mortgage recording tax	-	464	464	-	1,134	1,134
Capital grants and contributions	14,089	4,384	18,473	25,700	20,231	45,931
Additions to capital assets	(9,315)	(13,138)	(22,453)	(24,247)	(22,775)	(47,022)
Construction retainage, net	(642)	331	(311)	33	136	169
Proceeds from sale of capital assets	14	152	166	46	65	111
Passenger facility charges	10,176	-	10,176	10,876	-	10,876
Airport noise abatement	(7,291)	-	(7,291)	(5,089)	-	(5,089)
Other	(1,111)	(181)	(1,292)	302	(5,840)	(5,538)
Net capital and related financing activities	(13,047)	(13,068)	(26,115)	(13,892)	(7,451)	(21,343)
Investing activities:						
Interest income	143	13	156	122	11	133
Net change in cash and cash equivalents	7,229	(8,416)	(1,187)	5,242	4,524	9,766
Cash and cash equivalents, beginning of year	62,585	10,593	73,178	57,343	6,069	63,412
Cash and cash equivalents, end of year	$ 69,814	$ 2,177	$ 71,991	$ 62,585	$ 10,593	$ 73,178
Reconciliation to Balance Sheets:						
Cash and cash equivalents						
Unrestricted	$ 23,335	$ 1,769	$ 25,104	$ 19,874	$ 8,326	$ 28,200
Restricted	46,479	408	46,887	42,711	2,267	44,978
Total cash and cash equivalents	$ 69,814	$ 2,177	$ 71,991	$ 62,585	$ 10,593	$ 73,178

Additional Information
Combining Schedules of Cash Flows Continued (In thousands)

For the years ended March 31,	2014			2013		
	NFTA	**Metro**	**Total**	NFTA	Metro	Total
Reconciliation of operating loss to net cash used in operating activities:						
Operating loss	**$ (17,540)**	**$ (128,967)**	**$ (146,507)**	$ (15,275)	$ (130,284)	$ (145,559)
Adjustments to reconcile operating loss to net cash from operating activities:						
Depreciation	**27,987**	**25,034**	**53,021**	26,516	29,758	56,274
Other postemployment benefits, net	**2,472**	**11,626**	**14,098**	2,429	9,895	12,324
Changes in assets and liabilities						
Receivables	**(598)**	**(130)**	**(728)**	41	542	583
Materials and supplies inventory	**13**	**(201)**	**(188)**	(10)	173	163
Prepaid expenses and other	**(148)**	**(1)**	**(149)**	104	118	222
Accounts payable and accrued expenses	**610**	**(474)**	**136**	3,620	2,221	5,841
Customer deposits	**(20)**	**578**	**558**	150	(130)	20
Due to/from affiliate	**4,400**	**(4,400)**	**-**	(4,128)	4,128	-
Estimated liability for self-insured claims	**728**	**1,264**	**1,992**	119	754	873
Payable to NYS Retirement	**1,349**	**-**	**1,349**	4,098	-	4,098
Net cash from (for) operating activities	**$ 19,253**	**$ (95,671)**	**$ (76,418)**	$ 17,664	$ (82,825)	$ (65,161)

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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 Directors
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 financial statements of Niagara Frontier Transportation Authority (the Authority) (a component unit of the State of New York) which comprise the balance sheet as of March 31, 2014, 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 26, 2014.

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 result 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 26, 2014

Lumsden McCormick LLP
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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 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, 2014, and the related statements 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 26, 2014.

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, 2014. 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 26, 2014