

BUFFALO AND FORT ERIE PUBLIC BRIDGE AUTHORITY
2013 Annual Report

OUR MISSION



*To be known as the premier
Canada/U.S. international crossing providing excellence
in customer service and an effective conduit
for trade and tourism.*



Buffalo and Fort Erie Public Bridge Authority

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2013





INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo and Fort Erie Public Bridge Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Buffalo and Fort Erie Public Bridge Authority (the Authority), a business type activity, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT *continued***Opinion**

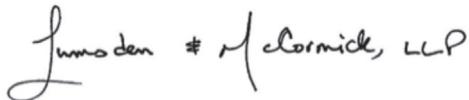
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in Note 2 to the financial statements, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities in 2013*.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages i through v (preceding the financial statements) and the schedules of funding progress for defined benefit pension plans and other postemployment benefits on page 16 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



February 28, 2014

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2013, 2012 and 2011 (Unaudited)

The management of the Buffalo and Fort Erie Public Bridge Authority (hereinafter referred to as the Authority) offers the following overview and analysis of the Authority's financial activities as of and for the years ended December 31, 2013, 2012 and 2011, which should be read in conjunction with the Authority's financial statements and notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

In 2013, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires certain items previously reported as assets and liabilities to be recognized as outflows or inflows of resources. GASB No. 65 resulted in expensing unamortized bond issuance costs and is applied retroactively by restating the Authority's net position for 2011, resulting in a decrease of \$581,000 in net position as of December 31, 2011.

The balance sheet presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Increases or decreases in net position serve as a relative indicator as to whether the Authority's financial position is strengthening or weakening over time.

The statement of revenues, expenses, and changes in net position shows the results of the Authority's operations during the year and reflects both operating and non-operating activities. Changes in net position reflect the operational impact of the current year's activities on the financial position of the Authority.

The statement of cash flows provides an analysis of the sources and uses of cash. The cash flow statement shows net cash provided or used in operating, capital and related financing, and investing activities.

The notes to the financial statements include additional information needed to provide a further understanding of the financial statements.

MANAGEMENT'S DISCUSSION & ANALYSIS *continued***FINANCIAL STATEMENT ANALYSIS**

Comparative Balance Sheets as of December 31:

U.S. \$, in thousands

	2013	2012 (As Restated)	2011 (As Restated)
Assets			
Current assets	\$ 103,876	\$ 94,125	\$ 81,011
Restricted assets	10,709	10,822	10,550
Capital assets, net	116,344	116,864	119,346
Total assets	<u>230,929</u>	<u>221,811</u>	<u>210,907</u>
Deferred outflows of resources			
Defeasance loss	814	940	1,071
Total assets and deferred outflows of resources	<u>\$ 231,743</u>	<u>\$ 222,751</u>	<u>\$ 211,978</u>
Liabilities and net position			
Current liabilities	\$ 6,990	\$ 6,388	\$ 5,722
Noncurrent liabilities	40,394	41,786	42,898
Total liabilities	<u>47,384</u>	<u>48,174</u>	<u>48,620</u>
Net position			
Net investment in capital assets	79,646	78,070	78,632
Restricted	10,509	10,622	10,350
Unrestricted	94,204	85,885	74,376
Total net position	<u>184,359</u>	<u>174,577</u>	<u>163,358</u>
Total liabilities and net position	<u>\$ 231,743</u>	<u>\$ 222,751</u>	<u>\$ 211,978</u>

MANAGEMENT'S DISCUSSION & ANALYSIS continued

As noted earlier, net position serves as an indicator of the Authority's overall financial strength. The Authority's net position increased by approximately \$10 million during 2013 and \$11 million during 2012 as a result of net operating income earned through all Authority activities. As required by the Authority's bond indenture, the restricted portion of net position is reserved for debt service, governmental payments, and operating reserves. Restricted amounts fluctuate based upon required debt service and operating reserve requirements. Substantially all unrestricted amounts of net position have been designated by the Board of Directors for acquisition or construction of capital projects and/or major repairs and replacements.

MANAGEMENT'S DISCUSSION & ANALYSIS *continued***Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31:***U.S. \$, in thousands*

	2013	2012 (As Restated)	2011 (As Restated)
Operating revenues			
Toll revenues	\$ 22,390	\$ 22,491	\$ 22,341
Other revenues	10,627	11,003	10,724
Total operating revenues	<u>33,017</u>	<u>33,494</u>	<u>33,065</u>
Operating expenses			
Toll collection and traffic control	3,491	3,656	3,695
Maintenance of bridge and facilities	6,153	4,996	5,022
Administration	2,731	2,849	2,707
Contributions to pension plans	1,391	1,363	1,605
Other postemployment benefits	1,791	1,768	1,799
Other expenses	1,155	1,087	1,104
Depreciation	5,338	5,455	5,628
Total operating expenses	<u>22,050</u>	<u>21,174</u>	<u>21,560</u>
Operating Income	<u>10,967</u>	<u>12,320</u>	<u>11,505</u>
Non-operating revenues (expenses)			
Interest income	174	277	400
Interest expense	(1,309)	(1,393)	(1,472)
Currency remeasurement	(50)	1	18
Other	-	14	2
Total non-operating net expense	<u>(1,185)</u>	<u>(1,101)</u>	<u>(1,052)</u>
Capital contributions	-	-	414
Special item - asset impairment loss	-	-	(21,736)
Change in net position	9,782	11,219	(10,869)
Net position, beginning of year, as restated	174,577	163,358	174,227
Net position, end of year	<u>\$ 184,359</u>	<u>\$ 174,577</u>	<u>\$ 163,358</u>

MANAGEMENT'S DISCUSSION & ANALYSIS continued

As a bi-national toll bridge operator, the Authority earns revenue and incurs expenses in both U.S. and Canadian dollars. All Canadian revenue and expenses are converted to U.S. dollars at the average rate of exchange for the year. During 2013 the Canadian dollar weakened slightly, resulting in a decrease in the remeasured value of both the revenue earned and expenses incurred in Canadian dollars.

Toll revenues decreased slightly during 2013 due to a 2% decrease in passenger vehicle crossings, while revenue increased in 2012 due to a 3% increase in commercial traffic. Toll rates remained unchanged. Other revenues, consisting primarily of rental income, were impacted by a decrease in rental income from duty-free operators during 2013, essentially negating the increase experienced in 2012.

Operating expenses for 2013 include an impairment loss of \$1.2 million associated with costs incurred to purchase a mortgage note in support of a property purchase for potential plaza expansion. The Authority is no longer pursuing the purchase of this site. Excluding the impairment loss, operating expenses decreased by \$336,000 or 1.6% during 2013, with the weakening of the Canadian dollar accounting for \$200,000 of the decrease. In addition, depreciation expense decreased \$117,000, as fully depreciated assets remain in service. Operating expenses decreased by \$386,000 or 1.8% in 2012 compared to 2011. Pension expense declined by \$242,000 in 2012 as investment performance of defined benefit pension plan assets improved from 2011. Depreciation expense decreased \$173,000 for 2012 as compared to 2011, as fully depreciated assets remain in service.

Total non-operating net expense increased \$84,000 in 2013, primarily due to a decrease in interest income. Despite increases in assets invested, investment income was negatively impacted by sustained declines in short-term investment rates. Currency remeasurement was negatively impacted by the weakening of the Canadian dollar during 2013. Interest expense declined due to a reduction in bonds outstanding.

In 2011, there was a special item for asset impairment loss of nearly \$22 million. This write-off was precipitated by the 2011 decision by the Authority's Board to end the eleven-year bi-national environmental review, which was formally terminated in January 2012 by the lead agency for the review, the United States Federal Highway Administration ("FHWA"). The Authority had initiated the Bi-National Integrated Environmental Process ("BNIEP") in October 2001 to evaluate the impacts and alternatives for increasing bridge capacity, and expanding and reconfiguring the U.S. plaza and connecting roadway system. The BNIEP included extensive analyses and study over the eleven-year period, the costs of which were funded primarily by Federal grants and capitalized as construction-in-progress. While the amount of the write-off represented a material change in the assets of the Authority, it does not affect the Authority's overall financial strength or ability to service its debt. Although the environmental review was terminated, the project costs incurred provided the Authority with data and insight into the environmental factors that affect its ongoing operations and that may form a backdrop for any future plans.

MANAGEMENT'S DISCUSSION & ANALYSIS continued

There were multiple reasons for terminating the BNIEP. Among them, significant spatial challenges and environmental impacts were identified, and the cost of implementing the proposed project exceeded the Authority's ability to secure adequate funding. In addition, the community and U.S. Federal and state resource agencies raised concerns related to historic impacts, relocations, and other environmental impacts associated with constructing and operating the proposed project. As such, FHWA, in cooperation with the Authority and the New York State Department of Transportation, formally advised the public that a Final Environmental Impact Statement would not be issued related to the BNIEP.

CAPITAL ASSETS AND LONG TERM DEBT

The Authority's total investment in capital assets as of December 31, 2013 approximated \$116 million, representing 50% of the Authority's total assets. Capital assets consist of land, the Peace Bridge, buildings and plaza improvements, equipment, and construction-in-progress.

In August 2005, the Authority issued \$44.1 million in 2005 Series Toll Bridge System Revenue Refunding Bonds, bearing interest at 3% through July 1, 2007. On July 1, 2007, the bonds were remarketed at an interest rate of 4% through July 1, 2010. On July 1, 2010, the bonds were again remarketed at an interest rate of 2.625% through July 1, 2014. On July 1, 2014, the bonds will be subject to mandatory tender without a bondholder right to retain, at which time the bonds will be subject to alternate methods of determining interest rates from time to time and possible conversion to a fixed rate of interest to maturity.

The principal of, purchase or redemption price of, and interest on, the Series 2005 Bonds are payable from funds drawn under an irrevocable, direct-pay letter of credit issued by the U.S. Bank. Standard & Poor's Rating Services and Fitch Ratings have assigned ratings of "AA-"/"A-1+", and "AA-" respectively, to the 2005 Series Bonds.

FACTS THAT WILL IMPACT FINANCIAL POSITION

The Authority has initiated preliminary design to re-deck the Peace Bridge "under traffic," which will require a full-time single lane closure during off-peak traffic periods (October through April) for three years, beginning in 2015. Although a maintenance and protection of traffic plan has not yet been developed to minimize the negative impact, preliminary analysis indicates construction related diversion of 0-10% for passenger vehicles and 0-5% for commercial vehicles. As design progresses, the Authority will take all reasonable steps to minimize the negative effect on toll revenue.

CONTACT FOR AUTHORITY'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the finances of the Authority for interested parties. Questions concerning any information within this report or requests for additional information should be addressed to Lynne M. Bogdan, Finance Manager, 100 Queen Street, Fort Erie, ON L2A 3S6.

2013

BALANCE SHEETS

December 31,	2013	2012 (As Restated)
Assets		
Current assets:		
Cash	\$ 918,031	\$ 1,190,506
Accounts receivable, net	1,177,683	1,159,021
Prepaid expenses and other assets	787,005	662,128
Investments	100,993,028	91,113,723
	<u>103,875,747</u>	<u>94,125,378</u>
Noncurrent assets:		
Restricted assets:		
Cash	4,002,148	4,111,211
Investments	6,706,597	6,711,070
	<u>10,708,745</u>	<u>10,822,281</u>
Capital assets, net (Note 6)	116,344,136	116,863,688
	<u>127,052,881</u>	<u>127,685,969</u>
Total assets	<u>230,928,628</u>	<u>221,811,347</u>
Deferred outflows of resources		
Defeasance loss	814,280	939,963
	<u>814,280</u>	<u>939,963</u>
Total assets and deferred outflows of resources	<u>\$ 231,742,908</u>	<u>\$ 222,751,310</u>

BALANCE SHEETS continued

December 31,

Liabilities**Current liabilities:**

Accounts payable and accrued liabilities
 Current portion of long term debt
 Accrued interest payable
 Allowance for unredeemed tokens
 Accrued compensation and benefits
 Due to other governments

	2013	2012 (As Restated)
	\$ 2,500,183	\$ 1,883,252
	2,440,000	2,350,000
	492,140	524,316
	342,297	359,139
	1,015,022	1,071,833
	200,000	200,000
	<u>6,989,642</u>	<u>6,388,540</u>

Noncurrent liabilities:

Bonds payable
 Other postemployment benefits

	33,500,000	35,940,000
	6,894,440	5,846,084
	<u>40,394,440</u>	<u>41,786,084</u>
	<u>47,384,082</u>	<u>48,174,624</u>

Total liabilities**Net Position**

Net investment in capital assets
 Restricted
 Unrestricted

	79,646,404	78,069,984
	10,508,745	10,622,281
	94,203,677	85,884,421
	<u>184,358,826</u>	<u>174,576,686</u>
	<u>\$ 231,742,908</u>	<u>\$ 222,751,310</u>

Total net position**Total liabilities and net position**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31,

	2013	2012 (As Restated)
Operating revenues:		
Commercial tolls	\$ 15,705,489	\$ 15,654,974
Passenger tolls	6,684,183	6,836,269
Rentals	10,399,475	10,644,060
Other	228,487	359,108
Total operating revenues	33,017,634	33,494,411
Operating expenses:		
Toll collection and traffic control	3,491,280	3,656,283
Maintenance of bridge, buildings, plazas and equipment	6,153,709	4,996,283
Administration	2,730,690	2,849,344
Contributions to pension plans	1,390,593	1,363,147
Other postemployment benefits	1,790,638	1,767,861
Canadian property taxes and U.S. equalization payments	956,076	887,034
Payments to New York State	200,000	200,000
Depreciation	5,337,711	5,454,598
Total operating expenses	22,050,697	21,174,550
Operating income	10,966,937	12,319,861
Non-operating revenues (expenses):		
Interest income	174,408	277,179
Interest expense	(1,309,273)	(1,393,144)
Currency remeasurement	(49,932)	1,051
Other	-	13,331
Total non-operating net expense	(1,184,797)	(1,101,583)
Change in net position	9,782,140	11,218,278
Net position - beginning of year, as restated (Note 2)	174,576,686	163,358,408
Net position - end of year	\$ 184,358,826	\$ 174,576,686

STATEMENTS OF CASH FLOWS

For the years ended December 31,

Operating activities:

Toll revenue
 Payments to suppliers
 Payments for wages and employee benefits
 Other revenues

Net operating activities**Capital and related financing activities:**

Acquisition and construction of capital assets
 Capital contributions from grants
 Interest paid on debt
 Principal payment on debt
 Proceeds from asset disposal

Net capital and related financing activities**Investing activities:**

Increase in investments, net
 Interest income

Net investing activities**Effect of exchange rate changes****Change in cash**

Cash - beginning

Cash - ending

Reconciliation of operating income to net cash
 provided from operating activities:

Operating income
 Adjustments to reconcile operating income to
 net cash provided from operating activities:
 Depreciation
 Asset impairment
 Allowance for unredeemed tokens
 Other postemployment benefits

Changes in assets and liabilities:

Accounts receivable
 Prepaid expenses and other assets
 Accounts payable and accrued liabilities
 Unearned revenue

	2013	2012
Operating activities:		
Toll revenue	\$ 22,130,396	\$ 22,567,427
Payments to suppliers	(5,602,804)	(5,582,193)
Payments for wages and employee benefits	(8,850,163)	(8,752,196)
Other revenues	10,843,578	10,857,589
Net operating activities	18,521,007	19,090,627
Capital and related financing activities:		
Acquisition and construction of capital assets	(5,410,757)	(2,606,795)
Capital contributions from grants	-	20,331
Interest paid on debt	(1,215,766)	(1,292,915)
Principal payment on debt	(2,350,000)	(2,265,000)
Proceeds from asset disposal	965	13,331
Net capital and related financing activities	(8,975,558)	(6,131,048)
Investing activities:		
Increase in investments, net	(9,874,832)	(11,497,064)
Interest income	174,408	277,179
Net investing activities	(9,700,424)	(11,219,885)
Effect of exchange rate changes	(226,563)	47,832
Change in cash	(381,538)	1,787,526
Cash - beginning	5,301,717	3,514,191
Cash - ending	\$ 4,920,179	\$ 5,301,717
Reconciliation of operating income to net cash provided from operating activities:		
Operating income	\$ 10,966,937	\$ 12,319,861
Adjustments to reconcile operating income to net cash provided from operating activities:		
Depreciation	5,337,711	5,454,598
Asset impairment	1,212,300	-
Allowance for unredeemed tokens	(1,032)	(727)
Other postemployment benefits	1,130,485	1,265,352
Changes in assets and liabilities:		
Accounts receivable	(39,945)	(77,274)
Prepaid expenses and other assets	(137,342)	(37,159)
Accounts payable and accrued liabilities	54,576	157,368
Unearned revenue	(2,683)	8,608
	\$ 18,521,007	\$ 19,090,627

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Reporting Entity

Buffalo and Fort Erie Public Bridge Authority (the Authority) was established through a legislative act as a public benefit corporation to own and operate an international toll bridge connecting the United States and Canada. The enabling Act, under which the Authority was created, provides that on July 1, 2020, or when all bonds issued by the Authority have been discharged (current final maturity date is January 1, 2025), whichever shall be later, the Authority's functions shall cease.

Basis of Presentation

The financial statements of the Authority are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority applies all GASB pronouncements as well as applicable accounting and financial reporting guidance of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Measurement Focus

The Authority reports as a special purpose government engaged in business-type activities, as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Grants and similar items are recognized as revenue as soon as 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 those goods or services. Certain other transactions are reported as non-operating activities and include investment income, interest paid on capital debt, and the net effect of currency remeasurement.

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 estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash

At various times, cash in financial institutions may exceed insured limits and subject the Authority to concentrations of credit risk.

Investments

Investments consist of money market funds, short term commercial paper, and U.S. mortgage and government agency obligations and are stated at fair market value.

NOTES TO FINANCIAL STATEMENTS *continued***1. Summary of Significant Accounting Policies:** *continued***Restricted Assets**

The Authority established the following accounts in order to comply with bond resolution requirements:

Bond - trustee accounts established to receive amounts necessary to meet current principal and interest payments and to maintain a sufficient balance in a debt service reserve fund.

Government payments - holds amounts necessary to fund payments to the State of New York as required under current legislation.

Operating expense reserve - holds amounts necessary to pay current year operating expenses as defined, plus an operating reserve equal to one-sixth of the operating expenses of the Authority for the preceding year.

Capital Assets

Capital assets are reported at actual historical cost. For assets being depreciated, expense is calculated over estimated useful lives using the straight-line method. Maintenance and repairs are expensed as incurred; significant improvements are capitalized.

Capitalization thresholds for determining which asset purchases are added to capital accounts and the estimated useful lives of capital assets are:

	Capitalization policy	Estimated useful life
Bridge infrastructure	\$ 5,000	10-150 years
Buildings and improvements	\$ 5,000	10-40 years
Equipment – general	\$ 1,000	3-10 years
Equipment – toll system	\$ 1,000	7 years

Currency Translation

Due to its bi-national operations, the Authority accounts for transactions in either United States dollars (USD) or Canadian dollars (CAD). The Authority translates all Canadian asset and liability accounts at the year-end exchange rate, except for property and equipment accounts, which are translated at historical rates in effect in the year of acquisition. The statement of revenues, expenses, and changes in net position is converted at the average rate of exchange for the year. Translation gains and losses are included as a component of non-operating revenues (expenses) as a currency remeasurement.

Compensated Absences

The Authority provides for vacation, sick, and compensatory time that is attributable to services already rendered and vested. The liabilities are recorded based on employees' rates of pay as of the end of the year, and include all payroll-related liabilities.

NOTES TO FINANCIAL STATEMENTS continued

1. Summary of Significant Accounting Policies: continued

Net Position

- *Net investment in capital assets* - consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of the assets.
- *Restricted* - consists of restricted assets, reduced by liabilities and deferred inflows of resources related to those assets, subject to externally imposed restrictions by creditors (such as through debt covenants), federal or state laws, or enabling legislation.
- *Unrestricted* - the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the definition of the above restrictions and are available for general use of the Authority.

The Authority has adopted a policy of using restricted funds, when available, prior to unrestricted funds.

2. Change in Accounting Principle:

Effective January 1, 2013, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement, in part, requires bond issuance costs to be expensed as incurred and is applied retroactively by restating the prior period financial statements as follows:

Net position previously reported, January 1, 2012	\$ 163,939,079
Bond issuance costs	(580,671)
Net position as restated, January 1, 2012	<u>\$ 163,358,408</u>

The impact on the 2012 comparative statement of activities was to increase other non-operating revenue by \$120,525, and increase the change in net position by the same amount.

3. Deposits and Investments:

The Authority's policy is to obtain collateral from U.S. financial institutions for its cash deposits. Cash deposits maintained in banks within the United States are covered by U.S. Federal Deposit Insurance and by collateral held by custodial banks in the Authority's name based upon the average daily funds available as determined by the banks. Canada Deposit Insurance covers cash deposits maintained in banks within Canada.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At December 31, 2013, \$3,250,339 of the Authority's bank deposits were exposed to custodial credit risk.

The Authority's exposure to foreign currency risk derives from its deposits in Canadian denominated deposits totaling \$3,492,977 (USD).

The Authority manages its investments pursuant to the bond resolution, which defines the nature and maturity of allowable investments. In general, the Authority invests conservatively in short-term U.S. and Canadian government agency securities and certificates of deposit.

NOTES TO FINANCIAL STATEMENTS *continued***4. Accounts Receivable, net:**

	<u>2013</u>	<u>2012</u>
Accounts receivable	\$ 1,180,683	\$ 1,160,021
Less allowance for doubtful accounts	3,000	1,000
	<u>\$ 1,177,683</u>	<u>\$ 1,159,021</u>

5. Investments:

	<u>2013</u>	<u>2012</u>
Unrestricted:		
U.S. Treasury & mortgage notes	\$ 98,975,550	\$ 82,100,529
Money market funds	2,017,478	2,014,391
Short-term commercial paper	-	6,998,803
	<u>\$ 100,993,028</u>	<u>\$ 91,113,723</u>
Restricted:		
U.S. Treasury notes	\$ 6,703,706	\$ 6,697,409
Accrued interest receivable	2,891	13,661
	<u>\$ 6,706,597</u>	<u>\$ 6,711,070</u>

NOTES TO FINANCIAL STATEMENTS continued

6. Capital Assets:

	January 1, 2013	Additions	Reclassifications and Disposals	December 31, 2013
Non-depreciable capital assets:				
Land	\$ 25,073,700	\$ -	\$ 172,428	\$ 25,246,128
Construction-in-progress	1,253,745	5,846,109	(2,186,472)	4,913,382
Total non-depreciable assets	26,327,445	5,846,109	(2,014,044)	30,159,510
Depreciable capital assets:				
Bridge	54,840,319	-	11,473	54,851,792
Buildings and plazas	94,568,341	-	484,011	95,052,352
Equipment - general	4,110,235	147,774	115,121	4,373,130
Equipment - toll	4,404,751	37,541	62,476	4,504,768
Total depreciable assets	157,923,646	185,315	673,081	158,782,042
Less accumulated depreciation:				
Bridge	(29,106,497)	(1,575,826)	-	(30,682,323)
Buildings and plazas	(30,801,990)	(3,334,831)	-	(34,136,821)
Equipment - general	(3,188,256)	(355,962)	43,898	(3,500,320)
Equipment - toll	(4,290,660)	(71,092)	83,800	(4,277,952)
Total accumulated depreciation	(67,387,403)	(5,337,711)	127,698	(72,597,416)
Total depreciable assets, net	90,536,243	(5,152,396)	800,779	86,184,626
	\$ 116,863,688	\$ 693,713	\$ (1,213,265)	\$ 116,344,136

NOTES TO FINANCIAL STATEMENTS *continued***6. Capital Assets:** *continued*

	January 1, 2012	Additions	Reclassifications and Disposals	December 31, 2012
Non-depreciable capital assets:				
Land	\$ 23,793,803	\$ 1,279,897	\$ -	\$ 25,073,700
Construction-in-progress	148,112	1,495,648	(390,015)	1,253,745
Total non-depreciable assets	23,941,915	2,775,545	(390,015)	26,327,445
Depreciable capital assets:				
Bridge	54,840,319	-	-	54,840,319
Buildings and plazas	94,399,306	-	169,035	94,568,341
Equipment - general	4,768,661	144,403	(802,829)	4,110,235
Equipment - toll	5,195,383	52,626	(843,258)	4,404,751
Total depreciable assets	159,203,669	197,029	(1,477,052)	157,923,646
Less accumulated depreciation:				
Bridge	(27,507,078)	(1,599,419)	-	(29,106,497)
Buildings and plazas	(27,445,096)	(3,348,963)	(7,931)	(30,801,990)
Equipment - general	(3,830,355)	(389,641)	1,031,740	(3,188,256)
Equipment - toll	(5,017,343)	(116,575)	843,258	(4,290,660)
Total accumulated depreciation	(63,799,872)	(5,454,598)	1,867,067	(67,387,403)
Total depreciable assets, net	95,403,797	(5,257,569)	390,015	90,536,243
	\$ 119,345,712	\$ (2,482,024)	\$ -	\$ 116,863,688

Maintenance of bridge, buildings, plazas and equipment expenses include \$1,213,000 of impairment losses associated with costs incurred to purchase a mortgage note on property for potential plaza expansion. The Authority is no longer pursuing the purchase of this property.

NOTES TO FINANCIAL STATEMENTS continued

7. Bond Indebtedness:

	January 1, 2013	Increases	Decreases	December 31, 2013	Due Within One Year
Serial Bonds	\$ 38,290,000	\$ -	\$ (2,350,000)	\$ 35,940,000	\$ 2,440,000
	January 1, 2012	Increases	Decreases	December 31, 2012	Due Within One Year
Serial Bonds	\$ 40,555,000	\$ -	\$ (2,265,000)	\$ 38,290,000	\$ 2,350,000

In August 2005, the Authority issued \$44,120,000 in variable rate Toll Bridge System Revenue Refunding Bonds to currently refund \$43,915,000 of outstanding 1995 Series bonds with interest rates ranging from 5.125% to 6.0%. The net proceeds of \$43,639,394 (after payment of \$480,606 for underwriting fees and other issuance costs) plus \$4,788,824 in Series 1995 bond reserve monies were used to refund the original bonds and establish the series 2005 debt reserves.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,242,465. This difference, reported in the accompanying balance sheets as a deferred outflow, is being charged to operations through the year 2024 using the effective interest method. The net difference is \$814,280 and \$939,963 at December 31, 2013 and 2012.

The Series 2005 bonds, which are special revenue obligations of the Authority, were issued as variable rate obligations. They bore an initial term rate interest of 3% through July 1, 2007. On July 1, 2007, the bonds were remarketed at an interest rate of 4% until July 1, 2010. On July 1, 2010, the bonds were again remarketed at an interest rate of 2.625% until July 1, 2014. Interest is payable semi-annually on January 1 and July 1. On July 1, 2014, the bonds will be subject to mandatory tender without a bondholder right to retain, at which time the bonds will be subject to alternate methods of determining interest rates from time to time and possible conversion to a fixed rate of interest to maturity.

Under an irrevocable letter of credit issued by a bank, the trustee is entitled to draw an amount sufficient to pay the principal of the bonds when due, the purchase price of the bonds tendered by the holders and not remarketed, and up to 199 days' interest. This letter of credit has an initial stated amount of \$43,360,176 (\$36,461,504 outstanding at December 31, 2013) and will expire on July 15, 2014, unless earlier terminated or extended.

NOTES TO FINANCIAL STATEMENTS *continued***7. Bond Indebtedness:** *continued*

Debt service requirements based on the 2.625% rate in effect at year end are as follows:

Years ending December 31,	Principal	Interest
2014	\$ 2,440,000	\$ 879,375
2015	2,530,000	812,963
2016	2,620,000	744,188
2017	2,715,000	672,919
2018	2,815,000	599,025
2019-2023	15,700,000	1,788,544
2024-2025	7,120,000	95,156
	\$ 35,940,000	\$ 5,592,170

8. Pension Plans:**Plan Descriptions**

The Authority maintains two non-contributory, single-employer defined benefit pension plans: Pension Plan for Employees of Buffalo and Fort Erie Public Bridge Authority in the United States (U.S. Plan) and Pension Plan for Employees of Buffalo and Fort Erie Public Bridge Authority in Canada (Canadian Plan), (collectively, the Defined Benefit Plans). The Defined Benefit Plans cover full and part-time employees hired before September 29, 2006 (union) and January 1, 2009 (non-union) in the United States, and before July 27, 2007 (union) and January 1, 2009 (non-union) in Canada, and provide retirement, death benefits and certain annual cost of living adjustments to plan members and beneficiaries. The Board of Directors has the authority to establish and amend benefit provisions. Separate financial statements are not required, nor have they been prepared for either pension plan.

The Authority has also established two non-contributory defined contribution money purchase plans which separately cover U.S. and Canadian employees hired subsequent to the eligibility dates of the defined benefit plans described above. The defined contribution plans require the Authority to contribute 6% of each qualified employee's covered salary annually. Contributions to the defined contribution plans totaled \$31,000 in 2013 and \$23,000 in each year for 2012 and 2011. The Authority also has a liability of \$516,000 under separate supplemental retirement agreements. The Authority makes all required contributions when due.

NOTES TO FINANCIAL STATEMENTS *continued*

8. Pension Plans: *continued*

Funding Policy and Annual Pension Cost of Defined Benefit Plans

The Authority pays the full costs of all benefits provided under the defined benefit plans, and its policy is to fund the annual required contributions each year. Annual required contributions are actuarially determined no less frequently than every other year.

The Authority's annual pension cost for the current year is as follows:

	Canadian Plan	U.S. Plan
Annual required contribution	\$ 779,000	\$ 491,000
Interest on net pension obligation	20,000	15,000
Annual pension cost	799,000	506,000
Contributions made	993,000	491,000
Decrease (increase) in net pension asset	(194,000)	15,000
Net pension asset, beginning of year	(120,000)	(65,000)
Net pension asset, end of year	\$ (314,000)	\$ (50,000)
	Canadian Plan	U.S. Plan
Annual Pension Cost (APC):		
2013	\$ 799,000	\$ 506,000
2012	804,000	486,000
2011	798,000	710,000
Percentage of APC Contributed:		
2013	124%	97%
2012	110%	103%
2011	81%	94%
Net Pension Asset:		
2013	\$ 314,000	\$ 50,000
2012	120,000	65,000
2011	38,000	51,000

Actuarial Methods and Assumptions

	Canadian Plan	U.S. Plan
Actuarial valuation date	1/1/2012	1/1/2012
Actuarial cost method	Projected Unit Cost	
Asset valuation method	Market value basis	
Actuarial assumptions:		
Investment rate of return	5.25%	6.0%
Projected salary increases	3.5%	3.5%
Includes inflation at	2.7%	2.75%

NOTES TO FINANCIAL STATEMENTS *continued***8. Pension Plans:** *continued***Funded Status and Funding Progress**

The funded status of the Canadian plan as of January 1, 2012, the most recent actuarial valuation date, is as follows:

Schedule of Funding Progress

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Canadian Plan	\$ 13,307,000	\$ 14,604,000	\$ 1,297,000	91%	\$ 1,642,000	79%

The funded status of the U.S. plan as of January 1, 2012, the most recent actuarial evaluation date, is as follows:

Schedule of Funding Progress

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
U.S. Plan	\$ 19,992,000	\$ 20,511,000	\$ 519,000	97%	\$ 2,584,000	20%

The schedule of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the UAALs for benefits.

2013

NOTES TO FINANCIAL STATEMENTS continued

9. Other Postemployment Benefits:

The Authority maintains two single-employer defined benefit postemployment healthcare plans (the Plans), one covering certain Canadian employees and one plan covering certain U.S. employees. The Plans provide benefits in the form of insurance premium payments for coverage of eligible retirees and spouses. Plan provisions and Authority and member contribution rates are determined through negotiations between the Authority and its employees or the collective bargaining units that represent its employees. The Plans do not issue publicly available financial reports.

Eligibility is based on date of hire, attainment of retirement age, and years of service. The Authority pays 100% of the health, dental, and life insurance premiums for employees meeting the following criteria:

Canadian Plan

Full-time employees hired prior to September 19, 2003 (union) or November 21, 2003 (non-union), upon attainment of age 50 with 2 years of service.

Full-time employees hired on or after September 19, 2003 but prior to July 27, 2007 (union) or on or after November 21, 2003 but prior to December 31, 2008 (non-union), upon attainment of age 50 with 10 years of service.

U.S. Plan

Full-time employees hired prior to July 18, 2003 (union) or November 21, 2003 (non-union), upon attainment of age 50 with 2 years of service.

Full-time employees hired on or after July 18, 2003 but prior to September 29, 2006 (union) or on or after November 21, 2003 but prior to December 31, 2008 (non-union), upon attainment of age 50 with 10 years of service.

Accounting standards require that the Authority recognize the cost of postemployment benefits during the periods when employees render the services that will ultimately 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, unfunded present value of all future OPEB costs associated with current employees and retirees at the beginning of the year.
- Normal cost which is the actuarially-determined cost of future OPEB earned in the current year.

NOTES TO FINANCIAL STATEMENTS *continued***9. Other Postemployment Benefits:** *continued*

The ARC represents an amount that, if funded each year, would ultimately satisfy the UAAL at the end of the amortization period (the Authority is using the maximum period of 30 years) as well as each year's normal cost during that timeframe. A liability is recognized to the extent that actual funding of the Plans is less than the ARC. This liability is reflected on the balance sheets as other postemployment benefits. The Authority's Board of Directors has the authority to establish funding policies for the Plans. The current policy is to fund the Plans to the extent of premium payments and reimbursements on the pay as you go basis.

The following table summarizes the Authority's annual OPEB for the years ended December 31, 2013 and 2012:

	2013	2012
Annual required contribution		
Normal cost	\$ 642,701	\$ 627,205
Amortization of UAAL	1,260,206	1,230,419
Annual required contribution	1,902,907	1,857,624
Interest on OPEB obligation	202,848	162,185
ARC adjustment	(315,117)	(251,948)
Annual OPEB cost	1,790,638	1,767,861
Contribution made	(742,282)	(529,489)
Increase in net OPEB obligation	1,048,356	1,238,372
Net OPEB obligation - beginning of year	5,846,084	4,607,712
Net OPEB obligation - end of year	\$ 6,894,440	\$ 5,846,084

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the previous three years were as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 1,790,638	41%	\$ 6,894,440
2012	1,767,861	30%	5,846,084
2011	1,798,698	34%	4,607,712

NOTES TO FINANCIAL STATEMENTS continued

9. Other Postemployment Benefits: continued

As of January 1, 2013, the total actuarial accrued liability for future benefits was \$23,679,000. Since there are no Plan assets, the entire liability is unfunded. The annual payroll of employees eligible to be covered by the Plans was \$3,390,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 698%.

The schedule of funding progress presented as required supplementary information (RSI) following the notes to the financial statements presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the UAALs for benefits.

The actuarial valuation involves estimates of costs and the impact of events far into the future. Examples include employee turnover and retirement rates, employee and retiree mortality, and changes in healthcare costs and interest rates. The Plans will be subject to routine actuarial revaluations in future years and these analyses will reflect revised estimates and assumptions as actual results are compared to past projections and expectations of the future. Similarly, the valuations reflect the Plans' benefits and cost sharing between the Authority and members of the Plans in effect at the time. Any changes in these factors will impact the results of future valuations.

The actuarial calculations reflect a long-term perspective 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:

Canadian Plan: 8.5% grading down by 0.5% each year through 2018, and 4.5% per year thereafter
U.S. Plan: 9.0% grading down by 0.5% each year through 2018, and 5.0% per year thereafter

Actuarial cost method:

Projected unit credit

Discount rate:

3.5%

Amortization methods:

30 years, open, level dollar

Mortality:

US and Canada: UP1994, projected to 2015 using scale AA

Retirement:

Provided by the Authority for active employees based upon their unreduced pension eligibility

Termination:

Rates calibrated to produce 3% aggregate turnover of the active data based on the Authority's historical experience.

NOTES TO FINANCIAL STATEMENTS *continued***10. Rentals:**

The Authority, as lessor, has entered into non-cancelable operating leases with a U.S. duty-free enterprise and a Canadian duty-free enterprise. The Authority recognized approximately \$7.3 million and \$7.5 million in rental income in 2013 and 2012, respectively, from the duty-free enterprises. This amount included approximately \$2.9 million and \$3.1 million of additional contingent rental payments based upon the sales levels of the lessees in 2013 and 2012, respectively.

The Authority maintains a lease through 2016 with the Canadian duty-free enterprise. Based upon the agreement, the minimum rental payments to be received by the Authority are approximately \$2 million for 2014; subsequent years' minimum rentals are based on 75% of the immediately preceding year's minimum and contingent rental payments.

The Authority maintains a five-year lease with the U.S. duty-free enterprise. This lease is subject to three 5-year renewals, with the last renewal period expiring in 2020. Based upon the agreement, the minimum rental payments to be received by the Authority are approximately \$2.3 million for 2014; subsequent years' minimum rentals are based on 50% of the immediately preceding year's minimum and contingent rental payments.

The Authority also leases space to a governmental entity under a non-cancelable ten year operating lease expiring June 2019. Rental revenue received by the Authority amounted to \$2.1 million in 2013 and \$2 million in 2012.

Minimum amounts to be received under this lease are as follows:

2014	\$	1,638,717
2015		1,344,924
2016		1,344,924
2017		1,344,924
2018		1,344,924
2019		616,423
	\$	<u>7,634,836</u>

The Authority also leases certain real property space under cancelable operating leases to commercial enterprises and governmental agencies. These leases are generally maintained on a month-to-month basis.

NOTES TO FINANCIAL STATEMENTS continued

11. Deferred Compensation Plan:

All employees of the Authority in the United States are offered participation in a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan permits eligible participants to defer a portion of their salary until future years. Under the plan, amounts deferred are not available to employees until separation, retirement, death, or unforeseen emergency.

All amounts deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust until paid or made available to the employee or other beneficiary.

12. Commitments and Contingencies:

Risk Management

The Authority purchases commercial insurance for various risks of loss due to torts, theft, damage, errors and omissions, injuries to employees, and natural disasters. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three years. Losses resulting from acts of terrorism have been excluded from property and excess liability policies. The Terrorism Risk Insurance Act of 2002 of the United States governs coverage for acts of terrorism under the general liability policy.

Operating Lease Commitments

In October 2005, a new duty-free store opened on the U.S. plaza and the old store was demolished. The new store, constructed at a cost of \$2.8 million and financed by the operator, is expected to be temporary in nature, as the Authority may require the reconfiguration or relocation of the U.S. plaza. In the event that relocation of the temporary store is required prior to 2015, the Authority's lease with the duty-free operator requires partial reimbursement, on a descending scale ranging from 25% to 5%, for the cost of construction of such temporary store.

Contractual Commitments

As of December 31, 2013, the Authority had contractual commitments of approximately \$2.9 million, primarily related to ongoing capital construction projects.

Litigation

The Authority is subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of management, these claims and lawsuits will not have a material adverse effect upon the financial position of the Authority.

NOTES TO FINANCIAL STATEMENTS *continued***13. Net Position:****Unrestricted – Designated**

The Board of Directors has designated available unrestricted amounts for acquisition or construction of capital projects and maintenance.

Restricted

	<u>2013</u>	<u>2012</u>
Debt service funds:		
Debt service fund	\$ 2,914,104	\$ 2,853,912
Debt service reserve fund	3,711,456	3,778,463
Operating expense reserve account	3,883,185	3,989,906
Total restricted assets	<u>\$ 10,508,745</u>	<u>\$ 10,622,281</u>

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedules of Funding Progress for Defined Benefit Pension Plans and Other Postemployment Benefits

For the year ended December 31, 2013

Canadian Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	\$ 13,307,000	\$ 14,604,000	\$ 1,297,000	91%	\$ 1,642,000	79%
1/1/2010	12,474,000	14,332,000	1,858,000	87%	1,748,000	106%
1/1/2009	10,752,000	13,580,000	2,828,000	79%	1,800,000	157%

U.S. Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	\$ 19,992,000	\$ 20,511,000	\$ 519,000	97%	\$ 2,584,000	20%
1/1/2010	18,285,000	19,761,000	1,476,000	93%	2,848,000	52%
1/1/2008	18,416,000	18,341,000	(75,000)	100%	2,693,000	N/A

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	\$ -	\$ 23,679,000	\$ 23,679,000	0%	\$ 3,390,000	698%
1/1/2012	-	23,422,000	23,422,000	0%	3,880,000	604%
1/1/2011	-	22,394,000	22,394,000	0%	4,133,000	542%





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