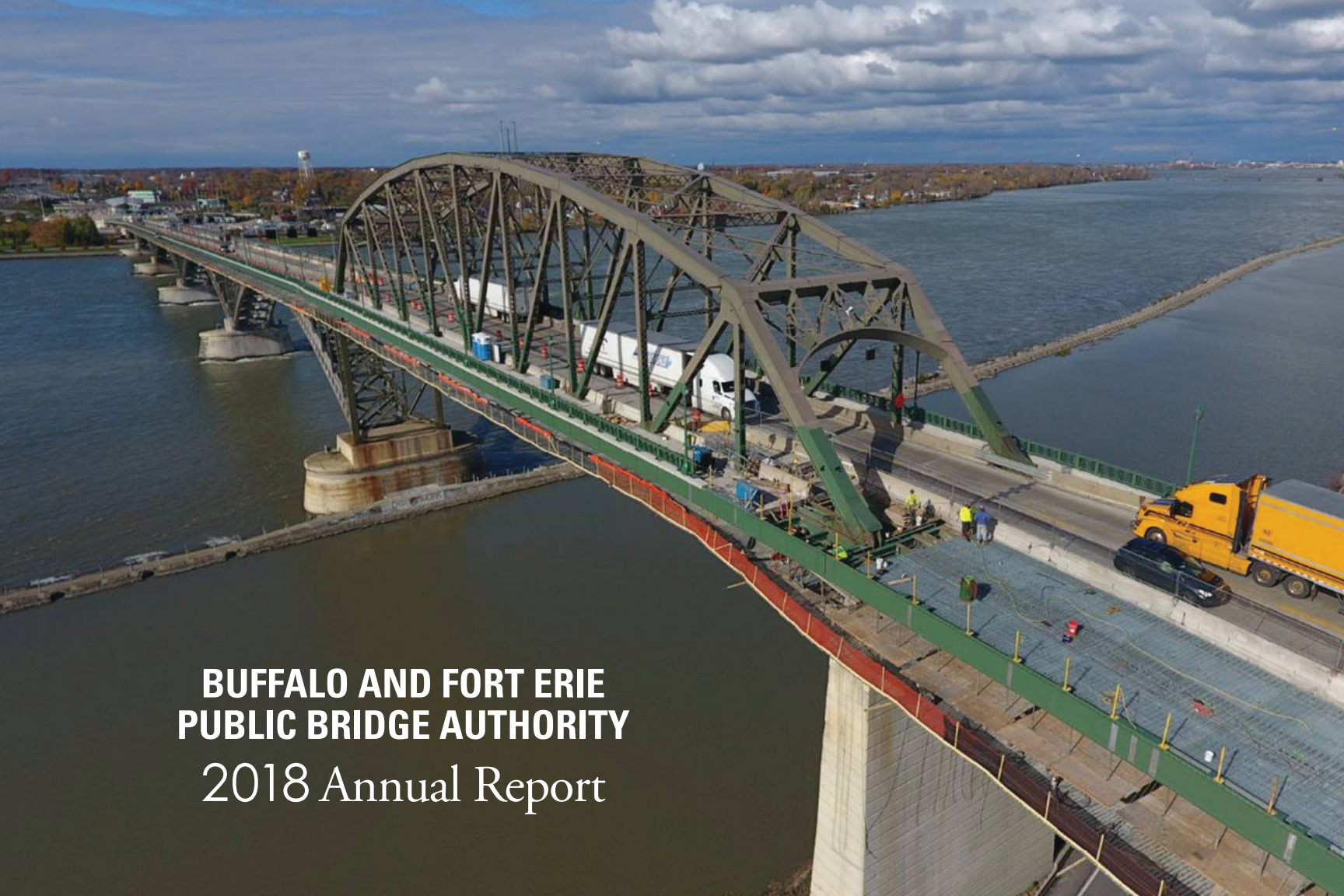


BUFFALO AND FORT ERIE PUBLIC BRIDGE AUTHORITY

2018 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

BOARD OF DIRECTORS

Kenneth A. Manning
CHAIRMAN

Tim Clutterbuck
VICE CHAIRMAN

Charles (Sam) L. Gurney

Llewellyn (Lew) Holloway

Anthony M. Masiello

Isabel Meharry

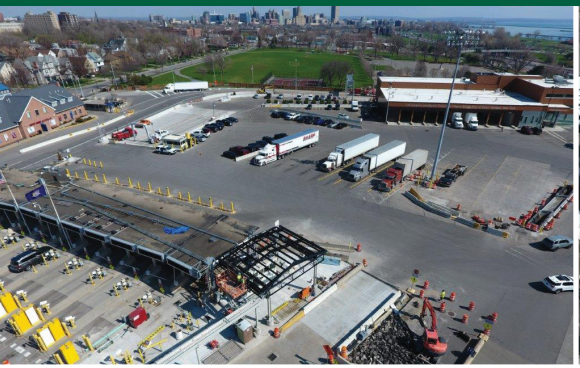
Patrick Meredith

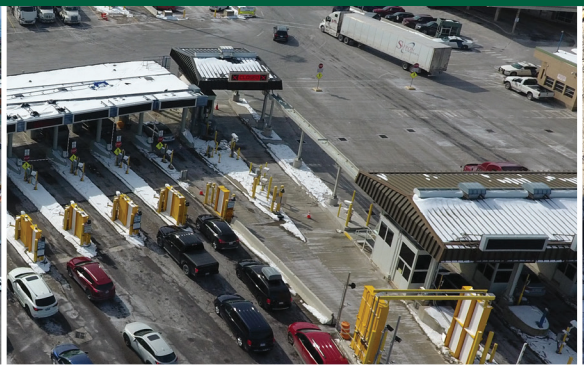
Patrick Robson

Michael J. Russo

Debbie Zimmerman

U.S. DUAL PURPOSE INSPECTION LANE ADDITION





Photos by: American Bridge Company and Peace Bridge Authority

PEACE BRIDGE REHABILITATION PROJECT

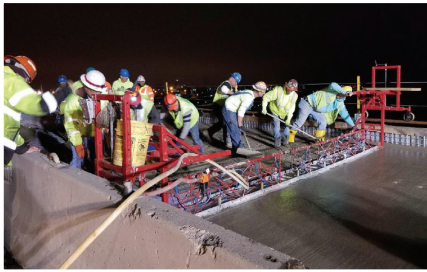













INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo and Fort Erie Public Bridge Authority

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, 2018 and 2017, 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. 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

Lumsden & McCormick, LLP

February 14, 2019

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2018, 2017, and 2016 (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, 2018, 2017 and 2016 which should be read in conjunction with the Authority's financial statements and notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Effective January 1, 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement requires the Authority to include in its statement of net position its net OPEB liability, deferred outflows and deferred inflows of resources related to OPEB. The cumulative effect of this change was a decrease in net position at January 1, 2018 totaling $9,079,000.

The balance sheets present 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 statements of revenues, expenses, and changes in net position show the results of the Authority's operations during the year and reflect both operating and non-operating activities. Changes in net position reflect the operational impact of the current year's activities on the financial position of the Authority.

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

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

MANAGEMENT'S DISCUSSION & ANALYSIS continued

FINANCIAL STATEMENT ANALYSIS

Comparative Balance Sheets as of December 31:

U.S. $, in thousands

	2018	2017	2016
Assets			
Current assets	$ 95,723	$ 98,759	$ 90,901
Restricted assets	36,026	61,438	9,625
Net pension asset	5,322	3,115	3,374
Capital assets, net	215,763	190,298	156,282
Total assets	352,834	353,610	260,182
Deferred outflows of resources			
Defeasance loss	292	380	477
Deferred outflows of resources from pensions	2,136	3,010	2,806
Deferred outflows of resources from OPEB	10,718	-	-
Total deferred outflows	13,146	3,390	3,283
Total assets and deferred outflows of resources	**$ 365,980**	**$ 357,000**	**$ 263,465**
Liabilities and net position			
Current liabilities	$ 16,713	$ 14,868	$ 11,782
Noncurrent liabilities	122,882	116,160	34,516
Total liabilities	139,595	131,028	46,298
Deferred inflows of resources			
Deferred inflows of resources from pensions	2,290	612	561
Deferred inflows of resources from OPEB	1	-	-
Total deferred inflows	2,291	612	561
Net position			
Net investment in capital assets	120,067	119,366	122,929
Restricted	16,376	15,653	9,425
Unrestricted	87,651	90,341	84,252
Total net position	224,094	225,360	216,606
Total liabilities, deferred inflows and net position	**$ 365,980**	**$ 357,000**	**$ 263,465**

As noted earlier, net position serves as an indicator of the Authority's overall financial strength. The Authority's net position decreased by $1,266,000 during 2018 and increased $8,754,000 during 2017 resulting from the Authority's operating and non-operating activities each year. The decrease in 2018 is primarily attributed to the cumulative effect of the change in the adoption of GASB 75 which resulted in a decrease in beginning net position of $9,079,000.

In 2017, the Authority issued $70,800,000 Toll System Revenue Bonds at a premium of $12,915,000, the proceeds of which are required to be used for the bridge redecking and rehabilitation project, coatings project, and enhancements to the U.S. plaza regarding inspection capacity. The net investment in capital assets at December 31, 2018 and 2017 reflects that activity as it consists of the Authority's net capital assets offset by any payables and debt outstanding used to finance the capital asset purchases. Unspent bond proceeds at December 31, 2018 and 2017 totaling $19,497,000 and $45,916,000 are recorded as restricted assets, respectively. 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 the amount of required debt service and operating reserve requirements. Substantially all unrestricted net position has been designated by the Board of Directors for acquisition or construction of capital projects and/or major repairs and replacements.

Deferred outflows of resources from pensions totaling $2,136,000 and $3,010,000 at December 31, 2018 and 2017, respectively, represent the difference between changes in assumptions and experience and the actual and expected investment earnings which are required to be amortized over a five year period.

Deferred outflows of resources from OPEB totaling $10,718,000 at December 31, 2018 represent $10,000,000 of contributions made after the measurement date to establish the OPEB Trust and $718,000 of premiums paid after the measurement date.

Deferred inflows of resources from pensions totaling $2,136,000 and $612,000 at December 31, 2018 and 2017 represent the difference between actual and expected investment earnings which are required to be amortized over a five year period.

MANAGEMENT'S DISCUSSION & ANALYSIS continued

Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31:
U.S. $, in thousands

	2018	2017	2016
Operating revenues			
Toll revenues	$ 22,213	$ 21,151	$ 21,321
Other revenues	8,858	8.968	7,913
Total operating revenues	31,071	30,119	29,234
Operating expenses			
Toll collection and traffic control	2,387	2,679	3,043
Maintenance of bridge, buildings, plazas & equip.	4,639	4,393	5,070
Administration	3,294	2,927	2,472
Pension	1,033	1,046	758
Other postemployment benefits	1,327	1,658	1,682
Other expenses	1,171	1,193	1,151
Loss on asset impairment	2,224	-	-
Depreciation	5,710	5,551	5,374
Total operating expenses	21,785	19,447	19,550
Operating income	9,286	10,672	9,684
Non-operating revenues (expenses)			
Interest income	2,269	824	419
Interest expense	(3,660)	(2,267)	(708)
Bond issuance costs	-	(495)	-
Currency remeasurement	(82)	20	26
Total non-operating net expense	(1,473)	(1,918)	(263)
Change in net position	7,813	8,754	9,421
Net position, beginning of year	225,360	216,606	207,185
Restatement - GASB 75	(9,079)		
Net position, end of year	**$ 224,094**	**$ 225,360**	**$ 216,606**

As a bi-national toll bridge operator, the Authority earns revenue and incurs expenses in both U.S. and Canadian dollars. Beginning in 2017, Canadian revenues and expenses are converted to U.S. dollars at the average exchange rate for the month in which the transaction occurs. Prior to 2017, all Canadian revenue and expenses were converted to U.S. dollars at the annual average exchange rate. Fluctuations in the exchange rate during 2018 resulted in a deterioration in the currency remeasurement to U.S. dollars compared to 2017. The U.S. vs Canadian dollar exchange rate remained relatively consistent comparing 2017 to 2016.

Toll revenues increased in 2018 due to an increase in the auto toll rate of $.75 that was effective January 1, 2018. Toll revenues decreased slightly from 2016 to 2017 due to a 2.0% decline in commercial crossings in 2017. Other revenues, consisting primarily of rental income, were positively impacted by a new agreement with the Canadian duty-free operator in 2016, as well as an increase in rental income attributable to U.S. Government agencies. The slight decline in 2018 is due mainly to a slight decrease in sales at the duty free stores that reduced contingent rent payments.

Operating expenses remained relatively consistent in all categories for 2016 and 2017 and increased $2,338,000 or 12% in 2018. The primary driver in the increase in operating expenses is the asset impairment loss of $2,224,000 recognized in 2018. The impairment loss represents the remaining book value of assets that will be replaced as a result of the bridge redecking project. Various bridge related projects result in year to year fluctuations in maintenance expenses. Salaries and benefits increased $84,000 in 2018, $224,000 in 2017 and $702,000 in 2016, primarily attributable rising healthcare and pension costs.

Total non-operating net expense decreased $445,000 in 2018 and increased $1,655,000 in 2017. While interest expense increased to the full annual amount of $3,660,000 in 2018, that increase in expense was mitigated by an increase in investment income of $1,445,000. The increase in 2017 is primarily due to increased interest related to the Series 2017 bonds issued in June 2017, and non-recurring bond issuance costs of $495,000. This increase is offset by an increase in investment income on restricted assets of $397,000.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's total investment in capital assets as of December 31, 2018 approximated $215,763,000 representing 59% of the Authority's total assets. Capital assets consist of land, the Peace Bridge, buildings and plaza improvements, equipment, and construction-in-progress. Capital asset additions totaled $33,428,000 in 2018 and $39,676,000 in 2017, as the Authority continued the Peace Bridge rehabilitation project (see description below) and other capital projects and equipment purchases.

In June 2014, the Authority issued $28,840,000 in fixed rate Toll Bridge System Revenue Refunding Bonds at a premium of $4,262,000, to currently refund $33,500,000 of outstanding Series 2005 bonds, with interest rates ranging from 4% to 5%, and a true interest cost of 2.22%. The Series 2014 bond proceeds of $33,102,000 plus $3,710,000 in Series 2005 bond reserve monies were used to refund the Series 2005 bonds under a mandatory tender and establish the Series 2014 debt reserves. The outstanding balance of the 2014 bonds at December 31, 2018 amounted to $19,940,000.

Standard & Poor's Rating Services and Fitch Ratings have assigned ratings of "A+" and "A" respectively, to the Series 2014 Bonds.

In June 2017, the Authority issued $70,800,000 in 30 year fixed rate Toll Bridge System Revenue Bonds at a premium of $12,915,000, to finance the redecking and rehabilitation of the Peace Bridge, make a deposit to the debt service reserve account and to pay certain costs of issuance of the Series 2017 bonds. The proceeds may also be used to pay the cost of the Peace Bridge coatings and enhancements to the U.S. plaza devoted to inspection capacity. The Series 2017 bonds were issued on a parity with the Series 2014 bonds, with fixed interest rates of 5%, and a true interest cost of 3.71%. Principal repayments begin upon the repayment of the Series 2014 bonds (January 1, 2025) and continue until January 1, 2047.

Standard & Poor's Rating Services have assigned a rating of "A+" to the Series 2017 Bonds.

FACTS THAT WILL IMPACT FINANCIAL POSITION

In October 2016, the Authority began the construction project to "re-deck" and rehabilitate the Peace Bridge. This project will continue for a period of three years with an anticipated total cost of approximately $100,000,000. Replacement of the concrete bridge deck will be conducted during the off-peak travel season (October 15th – May 1st). During construction, the bridge will be reduced at times to 2 lanes. Following each off-peak season, the bridge will be returned to a condition that will facilitate 3 lanes of travel. While lane restrictions are in place during active construction times, the impact on traffic and toll revenues has been minimal.

In October 2016, the Board approved the allocation of up to $10,000,000 of excess unrestricted funds for the establishment of an independent trust for the purpose of providing benefits associated with the Authority's defined benefit postemployment healthcare plans (OPEB). The establishment of the trust was also in anticipation of the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* The Authority established and funded this trust during 2018.

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 Karen L. Costa, Chief Financial Officer, 100 Queen Street, Fort Erie, ON L2A 3S6.

Balance Sheets *(in thousands)*

December 31,	2018	2017
Assets		
Current assets:		
Cash	$ 3,096	$ 2,454
Accounts receivable, net	1,016	999
Prepaid expenses and other assets	361	597
Investments	91,250	94,709
	95,723	98,759
Noncurrent assets:		
Restricted assets:		
Cash	9,394	3,677
Investments	26,632	57,761
	36,026	61,438
Net pension asset	5,322	3,115
Capital assets, net (Note 6)	215,763	190,298
	257,111	254,851
Total assets	352,834	353,610
Deferred outflows of resources		
Defeasance loss	292	380
Deferred outflows of resources related to pensions	2,136	3,010
Deferred outflows of resources related to OPEB	10,718	-
Total deferred outflows of resources	13,146	3,390
Total assets and deferred outflows of resources	$ 365,980	$ 357,000
Liabilities		
Current liabilities:		
Current portion of bonds payable	$ 2,440	$ 2,320
Accounts payable and accrued liabilities	10,698	8,805
Accrued compensation and benefits	790	795
Other current liabilities	2,785	2,948
	16,713	14,868
Noncurrent liabilities:		
Bonds payable	102,244	105,625
Net OPEB liability	20,638	10,535
	122,882	116,160
Total liabilities	139,595	131,028
Deferred inflows of resources		
Deferred inflows of resources related to pensions	2,290	612
Deferred inflows of resources related to OPEB	1	-
Total deferred inflows of resources	2,291	612
Net Position		
Net investment in capital assets	120,067	119,366
Restricted	16,376	15,653
Unrestricted	87,651	90,341
Total net position	224,094	225,360
Total liabilities, deferred inflows of resources, and net position	$ 365,980	$ 357,000

See accompanying notes.

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

For the years ended December 31,	2018	2017
Operating revenues:		
Commercial tolls	**$ 14,704**	$ 15,328
Passenger tolls	**7,509**	5,823
Rentals	**8,753**	8,864
Other	**106**	104
Total operating revenues	**31,072**	30,119
Operating expenses:		
Toll collection and traffic control	**2,387**	2,679
Maintenance of bridge, buildings, plazas and equipment	**4,639**	4,393
Administration	**3,294**	2,923
Pension	**1,033**	1,046
Other postemployment benefits	**1,327**	1,662
Canadian property taxes and U.S. equalization payments	**971**	993
Payments to New York State	**200**	200
Loss on asset impairment	**2,224**	-
Depreciation	**5,711**	5,551
Total operating expenses	**21,786**	19,447
Operating income	**9,286**	10,672
Non-operating revenues (expenses):		
Interest income	**2,269**	824
Interest expense	**(3,660)**	(2,267)
Currency remeasurement	**(82)**	20
Bond closing costs	**-**	(495)
Total non-operating net expenses	**(1,473)**	(1,918)
Change in net position	**7,813**	8,754
Net position - beginning of year	**225,360**	216,606
Cumulative effect of a change in accounting principle (Note 2)	**(9,079)**	
Net position - beginning of year, as restated	**216,281**	216,606
Net position - end of year	**$ 224,094**	$ 225,360

See accompanying notes.

Statements of Cash Flows *(in thousands)*

For the years ended December 31,

	2018	2017
Operating activities:		
Toll revenue	**$ 22,144**	$ 21,237
Payments to suppliers	**(4,492)**	(4,613)
Payments for wages and employee benefits	**(18,069)**	(7,715)
Other revenues	**8,915**	9,075
Net operating activities	**8,498**	17,984
Capital and related financing activities:		
Aquisition and construction of capital assets	**(31,763)**	(38,706)
Interest paid on debt	**(4,660)**	(1,222)
Principal payments on debt	**(2,320)**	(2,220)
Proceeds from long-term debt issued, including premium	**-**	83,715
Costs of issuance of long-term debt	**-**	(495)
Proceeds from asset disposal and other	**-**	18
Net capital and related financing activities	**(38,743)**	41,090
Investing activities:		
Decrease (increase) in investments	**34,588**	(57,907)
Interest income	**2,269**	824
Net investing activities	**36,857**	(57,083)
Effect of exchange rate changes	**(253)**	204
Change in cash	**6,359**	2,195
Cash - beginning	**6,131**	3,936
Cash - ending	**$ 12,490**	$ 6,131
Reconciliation of operating income to net cash provided from operating activities:		
Operating income	**$ 9,286**	$ 10,672
Adjustments to reconcile operating income to net cash provided from operating activities:		
Depreciation	**5,711**	5,551
Net pension and OPEB activity	**(9,284)**	1,033
(Gain) loss on disposal	**2,252**	(14)
Changes in assets and liabilities:		
Accounts receivable	**(17)**	178
Prepaid expenses and other assets	**234**	253
Accounts payable, accrued liabilities, and other	**306**	295
Accrued compensation	**10**	16
	$ 8,498	$ 17,984

See accompanying notes.

Statements of Fiduciary Net Position *(in thousands)*

December 31,	Trust Funds 2018	Trust Funds 2017
Assets		
Current assets:		
Cash and short term Investments	**$ 713**	$ 2,096
Noncurrent assets:		
Investments - equity and fixed income securities	**39,723**	36,397
Total assets	**40,436**	38,493
Net Position		
Net position held in trust for OPEB benefits	**-**	-
Net position held in trust for pension benefits	**40,436**	38,493
	$ 40,436	$ 38,493

Statements of Change in Fiduciary Net Position *(in thousands)*

December 31,	Trust Funds 2018	Trust Funds 2017
Additions:		
Employer contributions	**$ 641**	$ 717
Net investment income	**4,692**	1,849
Effect of foreign currency exchange rate changes	**(1,131)**	876
Total additions	**4,202**	3,442
Deductions:		
Benefits paid to participants or beneficiaries	**2,071**	1,983
Administrative expenses	**188**	77
Total deductions	**2,259**	2,060
Change in net position	**1,943**	1,382
Net position - beginning of year	**38,493**	37,111
Net position - end of year	**$ 40,436**	$ 38,493

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, 2047), whichever shall be later, the powers, jurisdiction, and duties of the Board shall cease and the property and assets acquired and held by the Authority within the State of New York and within Canada shall be under jurisdiction of the State of New York and Her Majesty The Queen in Right of Canada, respectively.

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.

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.

The Authority uses a fiduciary fund to report assets held in trust for pension and other postemployment benefits (OPEB). The Pension Trust Fund accounts for the assets held in trust for the U.S. and Canadian defined benefit plans (Note 8). The OPEB Trust Fund accounts for the assets held in trust for the U.S and Canadian single-employer defined benefit postemployment healthcare plans. The OPEB trust was funded during 2018, subsequent to the OPEB measurement date (Note 9).

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 cash equivalents, money market funds, commercial paper, corporate bonds, and U.S. mortgage and government agency obligations and are stated at fair value on a recurring basis as determined by quoted prices in active markets.

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 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 plazas	$ 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, which is 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 monthly exchange rate for the month in which the transaction occurs. 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.

Pensions

The net pension asset, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position of the Authority's defined benefit pension plans (Note 8) have been measured on the same basis as reported by the plans. For this purpose, benefit payments in the plans are recognized when due and payable in accordance with the benefit terms and investments are reported at fair value.

Postemployment Benefits

The net OPEB liability, deferred outflows and deferred inflows of resources, OPEB expense, and information about and changes in the fiduciary net position of the Authority's defined benefit healthcare plans (Note 9) have been measured on the same basis as reported by the plans. For this purpose, benefit payments in the plans are recognized when due and payable in accordance with the benefit terms and investments, if any, are reported at fair value.

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, 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which supersedes GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement addresses accounting and financial reporting for other postemployment benefits offered by the Authority and requires various note disclosures (Note 9) and required supplementary information. As a result, beginning of year net position has been restated as follows:

Net position previously reported, January 1, 2018	$	225,360
OPEB previously reported		10,535
Net OPEB liability		(20,419)
Net deferred outflows and inflows of resources previously reported		-
Deferred outflows of resources		807
Deferred inflows of resources		(2)
Net position as restated	$	216,281

Information for the prior year is not available and therefore such amounts have not been restated.

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 a custodial bank in the Authority's name based upon the average daily funds available as determined by the bank. Canada Deposit Insurance covers a portion of cash deposits maintained at 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, 2018, $3,987,000 of the Authority's bank deposits were exposed to custodial credit risk.

The Authority's exposure to foreign currency risk derives from its deposits denominated in Canadian currency totaling $4,200,000 (USD).

The Authority manages its investments pursuant to the bond resolution, which defines the nature and maturity of allowable investments.

4. Accounts Receivable, net:

(in thousands)	2018	2017
Accounts receivable for rental and tolls	$ 1,017	$ 1,000
Less allowance for doubtful accounts	1	1
	$ 1,016	$ 999

5. Investments:

(in thousands)	2018	2017
Unrestricted:		
U.S. Treasury notes	$ 3,026	$ 29,990
Federal Home Loan Mortgage Corporation notes	7,379	10,015
Federal Home Loan Bank notes	8,740	1,893
Federal Farm Credit Notes	12,041	3,443
Federal National Mortgage Association notes	3,993	-
Corporate bonds	18,252	18,170
Commercial paper	33,344	23,837
Cash equivalents	2,397	2,099
Money market funds	2,078	5,262
	$ 91,250	$ 94,709
Restricted:		
U.S. Treasury notes	$ 9,957	$ 22,004
Federal Home Loan Mortgage Corporation notes	-	652
Federal Home Loan Bank notes	2,098	2,091
Federal Farm Credit notes	1,554	1,546
Commercial paper	7,578	18,312
Cash equivalents	5,444	13,063
Money market funds	1	93
	$ 26,632	$ 57,761

NOTES TO FINANCIAL STATEMENTS continued

6. Capital Assets:

(in thousands)	January 1, 2018	Additions	Reclassifications and Disposals	**December 31, 2018**
Non-depreciable capital assets:				
Land	$ 25,243	$ -	$ -	**$ 25,243**
Construction-in-progress	52,549	32,289	(4,721)	**80,117**
Total non-depreciable assets	77,792	32,289	(4,721)	**105,360**
Depreciable capital assets:				
Bridge	72,924	-	(7,969)	**64,955**
Buildings and plazas	119,270	-	4,721	**123,991**
Equipment - general	6,235	1,110	(327)	**7,018**
Equipment - toll system	4,498	29	(28)	**4,499**
Total depreciable assets	202,927	1,139	(3,603)	**200,463**
Less accumulated depreciation:				
Bridge	(37,525)	(1,841)	5,759	**(33,607)**
Buildings and plazas	(44,473)	(3,220)	-	**(47,693)**
Equipment - general	(4,046)	(600)	285	**(4,361)**
Equipment - toll system	(4,377)	(50)	28	**(4,399)**
Total accumulated depreciation	(90,421)	(5,711)	6,072	**(90,060)**
Total depreciable assets, net	112,506	(4,572)	2,469	**110,403**
	$ 190,298	$ 27,717	$ (2,252)	**$ 215,763**

6. Capital Assets: continued

(in thousands)	January 1, 2017	Additions	Reclassifications and Disposals	December 31, 2017
Non-depreciable capital assets:				
Land	$ 25,243	$ -	$ -	$ 25,243
Construction-in-progress	16,457	39,676	(3,584)	52,549
Total non-depreciable assets	41,700	39,676	(3,584)	77,792
Depreciable capital assets:				
Bridge	72,877	-	47	72,924
Buildings and plazas	116,845	-	2,425	119,270
Equipment - general	5,325	-	910	6,235
Equipment - toll system	4,523	-	(25)	4,498
Total depreciable assets	199,570	-	3,357	202,927
Less accumulated depreciation:				
Bridge	(35,658)	(1,875)	8	(37,525)
Buildings and plazas	(41,369)	(3,104)	-	(44,473)
Equipment - general	(3,599)	(521)	74	(4,046)
Equipment - toll system	(4,362)	(51)	36	(4,377)
Total accumulated depreciation	(84,988)	(5,551)	118	(90,421)
Total depreciable assets, net	114,582	(5,551)	3,475	112,506
	$ 156,282	$ 34,125	$ (109)	$ 190,298

Net investment in capital assets as of December 31, 2018 and 2017 consists of the following (in thousands):

	2018	2017
Capital assets, net of accumulated depreciation	**$ 215,763**	$ 190,298
Bonds and related premiums, net of unspent proceeds	**(85,187)**	(62,029)
Capital asset purchases included in accounts payable	**(8,545)**	(6,880)
Accrued interest	**(2,256)**	(2,403)
Defeasance loss	**292**	380
	$ 120,067	$ 119,366

NOTES TO FINANCIAL STATEMENTS continued

7. Bond Indebtedness:

(in thousands)	January 1, 2018	Increases	Decreases	**December 31, 2018**	**Due Within One Year**
Series 2014 Bonds	$ 22,260	$ -	$ (2,320)	**$ 19,940**	**$ 2,440**
Unamortized premium 2014 refunding	2,201	-	(492)	**1,709**	**-**
Series 2017 bonds	70,800	-	-	**70,800**	**-**
Unamortized premium 2017 bond issue	12,684	-	(449)	**12,235**	
	$ 107,945	$ -	$ (3,261)	**$ 104,684**	**$ 2,440**

(in thousands)	January 1, 2017	Increases	Decreases	December 31, 2017	Due Within One Year
Series 2014 Bonds	$ 24,480	$ -	$ (2,220)	$ 22,260	$ 2,320
Unamortized premium 2014 refunding	2,748	-	(547)	2,201	-
Series 2017 bonds	-	70,800	-	70,800	-
Unamortized premium 2017 bond issue	-	12,915	(231)	12,684	
	$ 27,228	$ 83,715	$ (2,998)	$ 107,945	$ 2,320

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 $43,639,000 (after payment of $481,000 for underwriting fees and other issuance costs) plus $4,789,000 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 $2,242,000. This defeasance loss, 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 $292,000 and $380,000 at December 31, 2018 and 2017.

In June 2014, the Authority issued $28,840,000 in fixed rate Toll Bridge System Revenue Refunding Bonds at a premium of $4,262,000, with interest rates ranging from 4% to 5%, to currently refund $33,500,000 of outstanding Series 2005 bonds. The Series 2014 bond proceeds of $33,102,000 plus $3,710,000 in Series 2005 bond reserve monies were used to refund the Series 2005 bonds under mandatory tender and establish the Series 2014 debt reserves.

In June 2017, the Authority issued $70,800,000 in fixed rate Toll Bridge System Revenue Bonds at a premium of $12,915,000, and interest rates of 5%. The Series 2017 bond proceeds totaling $83,715,000 will be used to partially fund a $100,000,000 bridge redecking and rehabilitation project and to establish the Series 2017 debt reserves. Remaining funds, if any, may also be used for the coatings project and enhancements to the U.S. plaza regarding inspection capacity. The bonds were structured so that principal repayments will begin upon the payoff of the Series 2014 bonds (January 1, 2025) and will continue until January 1, 2047.

6. Bond Indebtedness: continued

Debt service requirements are as follows (in thousands):

Years ending December 31,	Principal	Interest
2019	$ 2,440	$ 4,415
2020	2,550	4,288
2021	2,690	4,153
2022	2,830	4,012
2023	2,980	3,863
2024-2028	14,380	17,296
2029-2033	12,350	14,544
2034-2038	15,760	11,230
2039-2043	20,115	6,777
2044-2047	14,645	1,488
	$ 90,740	$ 72,066

8. Pension Plans:

Defined Benefit Plans

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. The Board of Directors has the responsibility to establish and amend benefit provisions. Audited financial statements of the Defined Benefit Plans are not required and have not been prepared.

Benefits: The Defined Benefit Plans provide retirement, death benefits, and if applicable, certain annual cost of living adjustments to members and beneficiaries. Cost of living adjustments are effective when the most recent actuarial valuation reports reveal a surplus which is greater than twice the annual service cost. The cost of living adjustment, on a percentage basis, is equal to 50% of the change in consumer price indices based on the average change over the 12 month period ending on September 30th of the calendar year prior to the effective date of the adjustment. The cost of living adjustments are included in the Authority's annual pension cost only in the applicable years.

Employees Covered by Benefit Terms: At December 31, 2018, the following employees were covered by the Defined Benefit Plans:

	Canadian Plan	U.S. Plan
Inactive employees or beneficiaries currently receiving benefits	45	51
Inactive employees entitled to but not yet receiving benefits	-	2
Active employees	15	22
	60	75

NOTES TO FINANCIAL STATEMENTS continued

8. Pension Plans: continued

Employees Covered by Benefit Terms: At December 31, 2017, the following employees were covered by the Defined Benefit Plans:

	Canadian Plan	U.S. Plan
Inactive employees or beneficiaries currently receiving benefits	44	51
Inactive employees entitled to but not yet receiving benefits	-	2
Active employees	16	22
	60	75

Contributions: The Authority pays the full cost of all benefits provided under the Defined Benefit Plans. As a federally regulated pension plan, the Canadian plan is funded based upon an actuarial valuation and funding standards established by the *Pension Benefits Standard Act*. The Authority's policy with respect to the U.S. plan is to fund the greater of the annual required contribution or the current year service cost, as actuarially determined. Actuarial valuations are prepared no less frequently than every other year. For the years ended December 31, 2018 and 2017, the Authority's contribution rate to the Canadian Plan was 48% and 54%, respectively, of covered payroll and 11% of covered payroll to the U.S. Plan for each year.

Net Pension Asset

The net pension asset was measured as of December 31, 2017 based on an actuarial valuation as of January 1, 2018. There have been no significant changes in benefits or other plan provisions from the beginning of the year to the end of the year.

Actuarial Assumptions: Based on the size of the plans, it was not deemed appropriate to perform an experience study. The total pension liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Canadian Plan	U.S. Plan
Inflation	2.25%	2.75%
Salary increases	2.75%	2.75%
Investment rate of return	4.5%, compounded annually, net of all expenses	6%, compounded annually, net of all expenses
Mortality	CPM2014 Mortality Table with generational mortality improvements projected using Scale B - no assumed preretirement deaths	RP-2014 Healthy Mortality Table rolled back to 2006, projected generationally with Scale BB improvements - no assumed preretirement deaths
Discount rate	4.50%	6.00%
COLA increases	.78% COLA assumed	.73% COLA assumed

8. Pension Plans: continued

The long-term expected rates of return on plan assets were determined using best estimate ranges of expected future real rates of return (expected returns, net of pension plan investments and inflation) developed for each major asset class. These ranges are combined to produce the long-term expected rates of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Canadian Plan		
Canadian equities	6%	5.3%
International equities	14%	5.4%
Fixed income	70%	1.6%
Real estate	10%	6.0%
	100%	
U.S. Plan		
U.S. equities	33%	7.2%
International equities	6%	4.5%
Fixed income	35%	2.0%
Multi-asset	20%	4.3%
Real estate	5%	6.2%
Cash	1%	2.0%
	100%	

Discount rate: The projection of cash flows used to determine the respective discount rates assumed that the Authority's contributions will continue to follow the current funding policy. Based on this assumption, the Authority's fiduciary net position was projected to be sufficient to make all projected future benefit payments of the Defined Benefit Plans' current members. Based on the long-term rate of return of 4.5% (Canadian Plan) and 6.0% (U.S. Plan) and the municipal bond rate of 3.20%, the blended GASB discount rate would be 4.5% (Canadian Plan) and 6.0% (U.S. Plan).

NOTES TO FINANCIAL STATEMENTS continued

8. Pension Plans: continued

Changes in the Net Pension Asset

Canadian Plan (in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balances at 12/31/16	$ (12,139)	$ 13,793	$ 1,654
Effect of foreign currency exchange rate changes	(772)	876	104
Changes for the year:			
Service cost	(124)	-	(124)
Interest	(633)	-	(633)
Differences between expected and actual experience	(191)	-	(191)
Changes of assumptions	(187)	-	(187)
Employer contributions	-	498	498
Net investment income	-	995	995
Benefit payments	750	(750)	-
Administrative expense	-	(24)	(24)
Net changes	(385)	719	334
Balances at 12/31/17	$ (13,296)	$ 15,388	$ 2,092
Effect of foreign currency exchange rate changes	977	(1,131)	(154)
Changes for the year:			
Service cost	(126)	-	(126)
Interest	(605)	-	(605)
Changes of assumptions	(680)	-	(680)
Employer contributions	-	484	484
Net investment income	-	1,429	1,429
Benefit payments	697	(697)	-
Administrative expense	-	(68)	(68)
Net changes	(714)	1,148	434
Balances at 12/31/18	$ (13,033)	$ 15,405	$ 2,372

8. Pension Plans: continued

Changes in the Net Pension Asset continued

U.S. Plan (in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balances at 12/31/16	$ (21,598)	$ 23,318	$ 1,720
Changes for the year:			
Service cost	(138)	-	(138)
Interest	(1,269)	-	(1,269)
Differences between expected and actual experience	(207)	-	(207)
Changes of assumptions	(103)	-	(103)
Employer contributions	-	219	219
Net investment income	-	854	854
Benefit payments	1,233	(1,233)	-
Administrative expense	-	(53)	(53)
Net changes	(484)	(213)	(697)
Balances at 12/31/17	(22,082)	23,105	1,023
Changes for the year:			
Service cost	(84)	-	(84)
Interest	(1,289)	-	(1,289)
Employer contributions	-	157	157
Net investment income	-	3,263	3,263
Benefit payments	1,374	(1,374)	-
Administrative expense	-	(120)	(120)
Net changes	1	1,926	1,927
Balances at 12/31/18	$ (22,081)	$ 25,031	$ 2,950

The following presents the Authority's net pension asset for the Defined Benefit Plans calculated using the discount rate of 4.5% (Canadian Plan) and 6.0% (U.S. Plan) and the impact of using a discount rate that is 1.0% higher or lower than the current rate as of December 31, 2018.

(in thousands)	**1.0% Decrease**	**At Current Discount Rate**	**1.0% Increase**
Authority's Canadian Plan	$ 810	$ 2,372	$ 3,676
Authority's U.S. Plan	$ 417	$ 2,950	$ 5,068

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended December 31, 2018 and 2017, the Authority recognized pension expense of $461,000 and $143,000, respectively, for the Canadian Plan and $338,000 and $765,000, respectively, for the U.S. Plan. At December 31, 2018 and 2017, the Authority reported deferred outflows and deferred inflows of resources as follows:

NOTES TO FINANCIAL STATEMENTS continued

8. Pension Plans: continued

2018 (in thousands)	Canadian Plan Deferred Outflows of Resources	Canadian Plan Deferred Inflows of Resources	U.S. Plan Deferred Outflows of Resources	U.S. Plan Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	**$ 201**	**$ 843**	**$ 1,164**	**$ 1,447**
Changes of assumptions	**211**	**-**	**-**	**-**
Authority contributions subsequent to the measurement date	**394**	**-**	**166**	**-**
	$ 806	**$ 843**	**$ 1,330**	**$ 1,447**

2017 (in thousands)	Canadian Plan Deferred Outflows of Resources	Canadian Plan Deferred Inflows of Resources	U.S. Plan Deferred Outflows of Resources	U.S. Plan Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 481	$ 587	$ 1,849	$ 25
Authority contributions subsequent to the measurement date	523	-	157	-
	$ 1,004	$ 587	$ 2,006	$ 25

Authority contributions subsequent to the measurement date will be recognized as an adjustment to the net pension asset in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Years ending December 31,	
2019	$ 162
2020	78
2021	(450)
2022	(504)
	$ (714)

Payable to the Pension Plans

No contributions were payable to the pension plans at December 31, 2018 and 2017.

Defined Contribution Plans

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 6.0% of each qualified employee's covered salary annually. Contributions to the defined contribution plans totaled $114,000 and $104,000 in 2018 and 2017, respectively. The Authority makes all required contributions when due.

9. Other Postemployment Benefits (OPEB):

The Authority maintains two single-employer defined benefit postemployment healthcare plans (the Plans), one covering certain Canadian employees and one covering certain U.S. employees. The Plans provide benefits in the form of insurance premium payments for coverage of eligible retirees and dependents. Plan provisions and Authority and member contribution rates are determined by the Authority. 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.

The Plans are closed to new entrants subsequent to December 31, 2008.

At December 31, 2017, employees covered by the Plan include:

	Canadian Plan	U.S. Plan
Active employees	16	20
Inactive employees or beneficiaries currently receiving benefits	35	45
Inactive employees entitled to but not yet receiving benefits	-	-
	51	65

NOTES TO FINANCIAL STATEMENTS continued

9. Other Postemployment Benefits (OPEB) continued

Net OPEB Liability

The Authority's net OPEB liability of $20,638,000 was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017, rolled forward to December 31, 2017.

The Authority established a qualified trust as defined by GASB Statement No. 74 and No. 75 which was funded with an initial cash contribution of $10,000,000 during the year ended December 31, 2018. The Plan has adopted a funding policy and will begin making contributions in 2019 that are projected to cover all future benefit payments. Therefore, the discount rate is equal to the long-term rate of return.

The total OPEB liability in the December 31, 2017 valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Healthcare cost trend:
Canadian Plan: 6.25% grading down by 0.25% each year to 4.5%
U.S. Plan: 6.75% grading down by 0.25% each year to 5%

Discount rate:
Discount rate at measurement date is 6% which is equal to the long-term rate of return on the trust assets

Mortality:
U.S. Plan: RPH-2014, using Projection Scale BB
Canadian Plan: CIA CPM-2014 Combined Mortality with CIA Scale CPM-B

Retirement:
Expected dates for each active employee 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

Changes in the Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at December 31, 2017	$ 20,419	$ -	$ 20,419
Effect of foreign currency exchange rate changes	(298)	-	(298)
Changes for the year:			
Service cost	100	-	100
Interest	1,190	-	1,190
Differences between expected and actual experience	9	-	9
Benefit payments	(782)	-	(782)
Net changes	219	-	219
Balance at December 31, 2018	$ 20,638	$ -	$ 20,638

9. Other Postemployment Benefits (OPEB) continued

The following presents the sensitivity of the Authority's net OPEB liability to changes in the discount rate, including what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1% higher or lower than the current discount rate:

	1.0% Decrease (5%)	Discount Rate (6%)	1.0% Increase (7%)
Net OPEB liability	$ 23,749	$ 20,638	$ 18,114

The following presents the sensitivity of the Authority's net OPEB liability to changes in the healthcare cost trend rates, including what the Authority's net OPEB liability would be if it were calculated using trend rates that are 1% higher or lower than the current healthcare cost trend rates:

	1.0% Decrease (5.75% to 3.5%)	Healthcare Cost Trend Rate (6.75% to 4.5%)	1.0% Increase (7.75% to 5.5%)
Net OPEB liability	$ 17,983	$ 20,638	$ 23,901

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Authority recognized OPEB expense of $1,327,000. At December 31, 2018, the Authority reported deferred outflows and deferred inflows of resources related to OPEB from changes in assumptions, contributions subsequent to the measurement date and the initial contribution establishing the OPEB trust amounting to $10,717,000.

Authority contributions of $10,713,000 to the Trust subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. The remaining net amount of $4,000 reported as deferred outflows and deferred inflows of resources related to OPEB will also be recognized in OPEB expense during 2019.

NOTES TO FINANCIAL STATEMENTS continued

10. Rentals:

The Authority, as lessor, has entered into non-cancelable operating leases with separate U.S. and Canadian duty-free enterprises through December 31, 2020 and October 31, 2031, respectively. The Authority recognized $5,916,000 and $6,100,000 in rental income in 2018 and 2017, respectively, from the duty-free enterprises. The leases provide for annual minimum and contingent lease payments to the Authority.

The Authority also leases space to a governmental entity under a non-cancelable ten year operating lease expiring June 30, 2019. Rental revenue received by the Authority under this lease totaled $2,062,000 and $2,013,000 in 2018 and 2017, respectively.

Minimum amounts to be received under the leases are as follows (in thousands):

2019	$	5,311
2020		4,393
2021		3,077
2022		3,077
2023		3,077
Thereafter		24,616
	$	43,551

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

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.

The Authority also has unfunded liabilities of $1,178,000 and $1,080,000 included in accrued liabilities as of December 31, 2018 and 2017 to current and former management employees due under separate deferred compensation agreements. Payments made under these agreements totaled $7,800 and $8,200 in 2018 and 2017.

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.

Contractual Commitments: As of December 31, 2018, the Authority had contractual commitments of approximately $16,197,000 primarily related to ongoing capital construction projects.

Litigation: The Authority is involved in various legal proceedings, the outcome of which cannot be determined at this time.

13. Net Position:

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

Restricted

(in thousands)	**2018**	2017
Debt service funds:		
Debt service fund	**$ 4,796**	$ 4,723
Debt service reserve fund	**7,016**	7,016
Operating expense reserve account	**4,564**	3,914
Total restricted assets	**$ 16,376**	$ 15,653

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Authority's Net Pension Asset and Related Ratios - Canadian Plan

(in thousands)

As of the measurement date of December 31,

Canadian Plan	2017	2016	2015	2014
Total pension liability				
Service cost	$ 126	$ 124	$ 207	$ 190
Interest	605	633	593	565
Benefit payments, including refunds of employee contributions	(697)	(750)	(673)	(565)
Differences between expected and actual experience	680	191	-	-
Changes of assumptions	-	187	-	-
Net change in total pension liability	714	385	127	190
Total pension liability - beginning	13,296	12,139	11,581	11,391
Effect of foreign currency exchange rate changes	(977)	772	431	-
Total pension liability - ending	$ 13,033	$ 13,296	$ 12,139	$ 11,581
Plan fiduciary net position				
Employer contributions	$ 484	$ 498	$ 554	$ 647
Net investment income	1,429	995	175	1,432
Benefit payments, including refunds of employee contributions	(697)	(750)	(673)	(565)
Administrative expense	(68)	(24)	(41)	(19)
Net change in plan fiduciary net position	1,148	719	15	1,495
Plan fiduciary net position - beginning	15,388	13,793	13,283	11,788
Effect of foreign currency exchange rate changes	(1,131)	876	495	-
Plan fiduciary net position - ending	$ 15,405	$ 15,388	$ 13,793	$ 13,283
Net pension asset - ending	$ 2,372	$ 2,092	$ 1,654	$ 1,702
Plan fiduciary net position as a percentage of the total pension liability	118.2%	115.7%	113.6%	114.7%
Covered payroll	$ 863	$ 965	$ 949	$ 868
Net pension asset as a percentage of covered payroll	275.0%	216.8%	174.2%	196.0%
Foreign currency exchange rate:	1.36	1.26	1.34	1.39

** Data prior to 2014 is unavailable.*

Schedule of Changes in the Authority's Net Pension Asset and Related Ratios - U.S. Plan

(in thousands)

As of the measurement date of December 31,

U.S. Plan	2017	2016	2015	2014
Total pension liability				
Service cost	$ 84	$ 138	$ 283	$ 267
Interest	1,289	1,269	1,269	1,252
Benefit payments, including refunds of employee contributions	(1,374)	(1,233)	(1,610)	(936)
Difference between expected and actual experience	-	207	-	-
Changes of assumptions	-	103	-	-
Net change in total pension liability	(1)	484	(58)	583
Total pension liability - beginning	22,082	21,598	21,656	21,073
Total pension liability - ending	$ 22,081	$ 22,082	$ 21,598	$ 21,656
Plan fiduciary net position				
Employer Contributions	$ 157	$ 219	$ 266	$ 300
Net investment income	3,263	854	(657)	1,515
Benefit payments, including refunds of employee contributions	(1,374)	(1,233)	(1,610)	(936)
Administrative expense	(120)	(53)	(65)	(42)
Net change in plan fiduciary net position	1,926	(213)	(2,066)	837
Plan fiduciary net position - beginning	23,105	23,318	25,384	24,547
Plan fiduciary net position - ending	$ 25,031	$ 23,105	$ 23,318	$ 25,384
Net pension asset - ending	$ 2,950	$ 1,023	$ 1,720	$ 3,728
Plan fiduciary net position as a percentage of the total pension liability	113.4%	104.6%	108.0%	117.2%
Covered payroll	$ 1,469	$ 1,430	$ 2,157	$ 2,099
Net pension asset as a percentage of covered payroll	200.8%	71.5%	79.7%	177.6%

** Data prior to 2014 is unavailable.*

REQUIRED SUPPLEMENTARY INFORMATION continued

Schedule of Canadian Plan Contributions

(in thousands)

December 31,	2018	2017	2016	2015
Actuarially determined contribution	$ 415	$ 523	$ 468	$ 534
Contributions in relation to the actuarially determined contribution	415	523	468	534
Contribution deficiency (surplus)	$ -	$ -	$ -	$ -
Covered payroll	$ 863	$ 965	$ 949	$ 868
Contributions as a percentage of covered payroll	48.12%	54.19%	49.30%	61.50%
Foreign currency exchange rate:	1.36	1.26	1.34	1.39

Notes to Schedule

Valuation date	January 1, 2018
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal
Amortization method	Straight-line, closed
Remaining amortization period	5 years
Asset valuation method	Market value of assets
Inflation	2.25% per annum
Salary increases	2.75% per annum
Investment rate of return	4.5% per annum, net of investment expenses
Retirement age	Active participants are assumed to retire at age 59. Active participants over age 59 are assumed to retire one year from the current valuation date. Terminated vested participants with 10 or more years of credited service are assumed to retire at age 60; otherwise, age 65.
Mortality	CPM2014 Mortality Table with generational mortality improvements No preretirement deaths are assumed
COLA increases	.78%

** Data prior to 2015 is unavailable.*

Schedule of U.S. Plan Contributions

(in thousands)

December 31,	2018	2017	2016	2015
Actuarially determined contribution	$ 166	$ 157	$ 286	$ 270
Contributions in relation to the actuarially determined contribution	166	157	219	266
Contribution deficiency (surplus)	$ -	$ -	$ 67	$ 4
Covered payroll	$ 1,469	$ 1,430	$ 2,157	$ 2,099
Contributions as a percentage of covered payroll	11.30%	10.98%	10.15%	12.67%

Notes to Schedule

Valuation date	January 1, 2018
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal – Level Percentage of Pay
Amortization method	Level dollar, closed
Remaining amortization period	5 years
Asset valuation method	Fair market value, adjusted for any contributions and benefit payments in-transit
Inflation	2.75% per annum
Salary increases	2.75% per annum
Investment rate of return	6.0%, compounded annually, net of all expenses
Retirement age	Participants are assumed to retire at age 60; participants who have already reached age 60 are assumed to retire one year from current valuation date
Mortality	RP-2014 Healthy Mortality Table Fully rolled back to 2006 projected generationally with Scale BB Improvement. No preretirement deaths are assumed
COLA increases	.73%
Funding requirement	Contributions are required to be the greater of the actuarially determined funding amount or the calculated 'normal cost'

** Data prior to 2015 is unavailable.*

REQUIRED SUPPLEMENTARY INFORMATION continued

Schedule of Changes in the Authority's OPEB Liability and Related Ratios

December 31, 2018		
Total OPEB liability - beginning	$	20,419
Effect of foreign currency exchange rate changes		(298)
Changes for the year:		
Service cost		100
Interest		1,190
Differences between expected and actual experience		9
Benefit payments		(782)
Net change in total OPEB liability		517
Total OPEB liability - ending	$	20,638
Plan fiduciary net position - beginning	$	-
Changes for the year:		-
Employer contributions		-
Net investment income		-
Benefit payments		-
Administrative expense		-
Net change in plan fiduciary net position		-
Plan fiduciary net position - ending	$	-
Net OPEB liability - ending	$	20,638
Plan fiduciary net position as a percentage of the total pension liability		0%
Covered-employee payroll		2,149
Net OPEB liability as a percentage of covered-employee payroll		960%

** Data prior to 2018 is unavailable.*

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