BUFFALO AND FORT ERIE PUBLIC BRIDGE AUTHORITY

FINANCIAL STATEMENTS

December 31, 2014

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December 31, 2014

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2014 and 2013, 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.

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, 2014 and 2013, 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.

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 15 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 27, 2015

Buffalo and Fort Erie Public Bridge Authority

Management's Discussion and Analysis

December 31, 2014, 2013 and 2012
(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, 2014, 2013 and 2012, 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 deferred 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 2012, resulting in a decrease of $460,000 in net position as of December 31, 2012.

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 needed to provide a further understanding of the financial statements.

FINANCIAL STATEMENT ANALYSIS

Comparative Balance Sheets as of December 31:

U.S. $, in thousands

	2014	2013	2012 (As Restated)
Assets			
Current assets	$ 101,972	$ 103,876	$ 94,125
Restricted assets	11,055	10,709	10,822
Capital assets, net	128,680	116,344	116,864
Total assets	241,707	230,929	221,811
Deferred outflows of resources			
Defeasance loss	695	814	940
Total assets and deferred outflows of resources	**$ 242,402**	**$ 231,743**	**$ 222,751**
Liabilities and net position			
Current liabilities	$ 9,259	$ 6,990	$ 6,388
Noncurrent liabilities	38,397	40,394	41,786
Total liabilities	47,656	47,384	48,174
Net position			
Net investment in capital assets	92,710	79,646	78,070
Restricted	10,855	10,509	10,622
Unrestricted	91,181	94,204	85,885
Total net position	194,746	184,359	174,577
Total liabilities and net position	**$ 242,402**	**$ 231,743**	**$ 222,751**

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 2014 and 2013 as a result of 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 net position has been designated by the Board of Directors for acquisition or construction of capital projects and/or major repairs and replacements.

Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31:

U.S. $, in thousands

	2014	2013	2012 (As Restated)
Operating revenues			
Toll revenues	$ 22,177	$ 22,390	$ 22,491
Other revenues	9,126	10,628	11,003
Total operating revenues	31,303	33,018	33,494
Operating expenses			
Toll collection and traffic control	3,411	3,491	3,656
Maintenance of bridge, building, plazas & equip.	5,075	6,154	4,996
Administration	2,750	2,731	2,849
Pension	487	1,390	1,363
Other postemployment benefits	1,681	1,791	1,768
Other expenses	1,169	1,156	1,087
Depreciation	4,980	5,338	5,455
Total operating expenses	19,553	22,051	21,174
Operating income	11,750	10,967	12,320
Non-operating revenues (expenses)			
Interest income	178	174	277
Interest expense	(1,053)	(1,309)	(1,393)
Currency remeasurement	(64)	(50)	1
Bond issuance costs	(424)	-	-
Other	-	-	14
Total non-operating net expense	(1,363)	(1,185)	(1,101)
Change in net position	10,387	9,782	11,219
Net position, beginning of year	184,359	174,577	163,358
Net position, end of year	**$ 194,746**	**$ 184,359**	**$ 174,577**

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. In 2014, the weakening of the Canadian dollar continued the trend that started in 2013, resulting in a decrease in the remeasured value of both the revenue earned and expenses incurred in Canadian dollars.

Toll revenues decreased slightly during 2014 and 2013 due to the 7% and 2% decline in passenger vehicle crossings, respectively. Commercial vehicle volume and toll rates remained unchanged. Other revenues, consisting primarily of rental income, were impacted by a decrease in rental income from duty-free operators during 2014 and 2013.

Operating expenses for 2013 include an impairment loss of $1,200,000 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 $1,298,000 during 2014, with the weakening of the Canadian dollar accounting for $400,000 of the decrease. In addition, pension expense declined by $903,000 in 2014 as investment performance of defined benefit pension plan assets improved. Finally, depreciation expense decreased $358,000 in 2014 as leasehold improvements recovered over a five-year period ending in June 2014 became fully depreciated. This was offset by losses on disposal of assets of $414,000.

Excluding the impairment loss of $1,200,000 recognized in 2013, operating expenses decreased by $323,000 or 1.5% 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 remained in service.

Non-recurring items included costs associated with the issuance of the Series 2014 Bonds and resulted in an increase in non-operating net expense in 2014. These expenses were partially offset by a reduction in interest expense, due to a reduction in outstanding principal and a decrease in the effective interest rate paid on the bonds.

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.

CAPITAL ASSETS AND LONG TERM DEBT

The Authority's total investment in capital assets as of December 31, 2014 approximated $129,000,000, representing 53% 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 $44,120,000 in Series 2005 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% until July 1, 2014, at which time the bonds were refunded.

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.

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

FACTS THAT WILL IMPACT FINANCIAL POSITION

The Authority has initiated design to re-deck the Peace Bridge "under traffic," which will require a full-time single bridge 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 finalized to minimize the negative impact, preliminary analysis indicates diversion of 3-5% of total traffic during years of construction. 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.

Balance Sheets (In thousands)

December 31,	2014	2013
Assets		
Current assets:		
Cash	$ 169	$ 918
Accounts receivable, net	1,346	1,178
Prepaid expenses and other assets	1,429	787
Investments	99,028	100,993
	101,972	103,876
Noncurrent assets:		
Restricted assets:		
Cash	4,714	4,002
Investments	6,341	6,707
	11,055	10,709
Capital assets, net (Note 5)	128,680	116,344
	139,735	127,053
Total assets	241,707	230,929
Deferred outflows of resources		
Defeasance loss	695	814
Total assets and deferred outflows of resources	$ 242,402	$ 231,743
Liabilities		
Current liabilities:		
Current portion of bonds payable	$ 2,230	$ 2,440
Accounts payable and accrued liabilities	4,831	2,501
Accrued compensation and benefits	954	1,015
Other current liabilities	1,244	1,034
	9,259	6,990
Noncurrent liabilities:		
Bonds payable	30,534	33,500
Other postemployment benefits	7,863	6,894
	38,397	40,394
Total liabilities	47,656	47,384
Net Position		
Net investment in capital assets	92,710	79,646
Restricted	10,855	10,509
Unrestricted	91,181	94,204
Total net position	194,746	184,359
Total liabilities and net position	$ 242,402	$ 231,743

See accompanying notes.

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

For the years ended December 31,	2014	2013
Operating revenues:		
Commercial tolls	$ 15,966	$ 15,706
Passenger tolls	6,211	6,684
Rentals	8,889	10,400
Other	237	228
Total operating revenues	31,303	33,018
Operating expenses:		
Toll collection and traffic control	3,411	3,491
Maintenance of bridge, buildings, plazas and equipment	5,075	6,154
Administration	2,750	2,731
Pension	487	1,390
Other postemployment benefits	1,681	1,791
Canadian property taxes and U.S. equalization payments	969	956
Payments to New York State	200	200
Depreciation	4,980	5,338
Total operating expenses	19,553	22,051
Operating income	11,750	10,967
Non-operating revenues (expenses):		
Interest income	178	174
Interest expense	(1,053)	(1,309)
Currency remeasurement	(64)	(50)
Bond closing costs	(424)	-
Total non-operating net expense	(1,363)	(1,185)
Change in net position	10,387	9,782
Net position - beginning of year	184,359	174,577
Net position - end of year	$ 194,746	$ 184,359

See accompanying notes.

Statements of Cash Flows (In thousands)

For the years ended December 31,	2014	2013
Operating activities:		
Toll revenue	$ 22,367	$ 22,130
Payments to suppliers	(5,898)	(5,603)
Payments for wages and employee benefits	(7,611)	(8,850)
Other revenues	8,843	10,844
Net operating activities	17,701	18,521
Capital and related financing activities:		
Acquisition and construction of capital assets	(16,240)	(5,411)
Interest paid on debt	(1,043)	(1,216)
Principal payment on debt	(2,440)	(2,350)
Payments on long-term debt	(33,500)	-
Proceeds from long-term debt issued, including premium	33,102	-
Cost of issuance of long-term debt	(424)	-
Proceeds from asset disposal and other	611	1
Net capital and related financing activities	(19,934)	(8,976)
Investing activities:		
Decrease (increase) in investments, net	2,331	(9,875)
Interest income	178	174
Net investing activities	2,509	(9,701)
Effect of exchange rate changes	(313)	(226)
Change in cash	(37)	(382)
Cash - beginning	4,920	5,302
Cash - ending	$ 4,883	$ 4,920
Reconciliation of operating income to net cash provided from operating activities:		
Operating income	$ 11,750	$ 10,967
Adjustments to reconcile operating income to net cash provided from operating activities:		
Depreciation	4,980	5,338
Loss on disposal	414	-
Asset impairment	-	1,212
Allowance for unredeemed tokens	(2)	(1)
Accrued compensation and other postemployment benefits	1,095	1,130
Changes in assets and liabilities:		
Accounts receivable	(183)	(40)
Prepaid expenses and other assets	(672)	(137)
Accounts payable and accrued liabilities	228	55
Unearned revenue	91	(3)
	$ 17,701	$ 18,521

See accompanying notes.

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 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. 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.

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.

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. 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 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, 2014, $3,548,000 of the Authority's bank deposits were exposed to custodial credit risk.

The Authority's exposure to foreign currency risk derives from its deposits in Canadian denominated deposits totaling $3,712,000 (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.

3. Accounts Receivable, net:

(in thousands)		**2014**		2013
Accounts receivable	**$**	**1,347**	$	1,181
Less allowance for doubtful accounts		**1**		3
	$	**1,346**	$	1,178

4. Investments:

(in thousands)		2014		2013
Unrestricted:				
U.S. Treasury & mortgage notes	$	**98,109**	$	98,976
Money market funds		**919**		2,017
	$	**99,028**	$	100,993
Restricted:				
U.S. Treasury notes	$	**6,341**	$	6,704
Accrued interest receivable		**-**		3
	$	**6,341**	$	6,707

5. Capital Assets:

(in thousands)		January 1, 2014		Additions		Reclassifications and Disposals		**December 31, 2014**
Non-depreciable capital assets:								
Land	$	25,245	$	-	$	-	$	**25,245**
Construction-in-progress		4,914		17,860		(9,709)		**13,065**
Total non-depreciable assets		30,159		17,860		(9,709)		**38,310**
Depreciable capital assets:								
Bridge		54,852		-		8,599		**63,451**
Buildings and plazas		95,052		-		(298)		**94,754**
Equipment - general		4,373		458		(502)		**4,329**
Equipment - toll		4,505		23		5		**4,533**
Total depreciable assets		158,782		481		7,804		**167,067**
Less accumulated depreciation:								
Bridge		(30,682)		(1,521)		-		**(32,203)**
Buildings and plazas		(34,137)		(3,051)		256		**(36,932)**
Equipment - general		(3,500)		(325)		573		**(3,252)**
Equipment - toll		(4,278)		(83)		51		**(4,310)**
Total accumulated depreciation		(72,597)		(4,980)		880		**(76,697)**
Total depreciable assets, net		86,185		(4,499)		8,684		**90,370**
	$	116,344	$	13,361	$	(1,025)	$	**128,680**

(in thousands)	January 1, 2013	Additions	Reclassifications and Disposals	December 31, 2013
Non-depreciable capital assets:				
Land	$ 25,073	$ -	$ 172	$ 25,245
Construction-in-progress	1,254	5,846	(2,186)	4,914
Total non-depreciable assets	26,327	5,846	(2,014)	30,159
Depreciable capital assets:				
Bridge	54,840	-	12	54,852
Buildings and plazas	94,568	-	484	95,052
Equipment - general	4,110	148	115	4,373
Equipment - toll	4,405	37	63	4,505
Total depreciable assets	157,923	185	674	158,782
Less accumulated depreciation:				
Bridge	(29,106)	(1,576)	-	(30,682)
Buildings and plazas	(30,802)	(3,335)	-	(34,137)
Equipment - general	(3,188)	(356)	44	(3,500)
Equipment - toll	(4,291)	(71)	84	(4,278)
Total accumulated depreciation	(67,387)	(5,338)	128	(72,597)
Total depreciable assets, net	90,536	(5,153)	802	86,185
	$ 116,863	$ 693	$ (1,212)	$ 116,344

Net investment in capital assets as of December 31, 2014 and 2013 consists of the following (in thousands):

	2014	2013
Capital assets, net of accumulated depreciation	**$ 128,680**	$ 116,344
Bonds and related premiums	**(32,764)**	(35,940)
Capital asset purchases included in accounts payable	**(3,180)**	(1,100)
Accrued interest	**(721)**	(472)
Defeasance loss	**695**	814
	$ 92,710	$ 79,646

6. Bond Indebtedness:

(in thousands)	January 1, 2014	Increases	Decreases	**December 31, 2014**	**Due Within One Year**
Serial bonds	$ 35,940	$ 28,840	$ (35,940)	**$ 28,840**	**$ 2,230**
Unamortized premium 2014 refunding	-	4,262	(338)	**3,924**	**-**
	$ 35,940	**$ 33,102**	**$ (36,278)**	**$ 32,764**	**$ 2,230**

(in thousands)	January 1, 2013	Increases	Decreases	December 31, 2013	Due Within One Year
Serial bonds	$ 38,290	$ -	$ (2,350)	$ 35,940	$ 2,440

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 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 $695,000 and $814,000 at December 31, 2014 and 2013.

The Series 2005 bonds, which were 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, when the bonds were subject to mandatory tender without a bondholder right to retain.

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, including premium, 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.

Debt service requirements are as follows (in thousands):

Years ending December 31,	Principal	Interest
2015	$ 2,230	$ 1,263
2016	2,130	1,177
2017	2,220	1,089
2018	2,320	973
2019	2,440	875
2020-2024	14,190	2,322
2025	3,310	-
	$ 28,840	$ 7,699

7. 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 if applicable, 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 the Defined Benefit Plans.

The Defined Benefit Plans provide for cost of living adjustments 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.

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 $39,000 in 2014, $31,000 in 2013 and $23,000 in 2012. The Authority also has a liability of $525,000 under separate supplemental retirement agreements. The Authority makes all required contributions when due.

Funding Policy and Annual Pension Cost of Defined Benefit Plans

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.

The Authority's annual pension cost for the current year is as follows (in thousands):

	Canadian Plan	U.S. Plan
Annual required contribution	$ 386	$ -
Interest on net pension obligation	10	-
Annual pension cost	396	-
Contributions made	770	300
Increase in net pension asset	(374)	(300)
Net pension asset, beginning of year	(314)	(50)
Net pension asset, end of year	$ (688)	$ (350)

(in thousands)	Canadian Plan	U.S. Plan
Annual Pension Cost (APC):		
2014	$ 396	$ -
2013	$ 799	$ 506
2012	$ 804	$ 486
Percentage of APC Contributed:		
2014	194%	-
2013	124%	97%
2012	110%	103%
Net Pension Asset:		
2014	$ 688	$ 350
2013	$ 314	$ 50
2012	$ 120	$ 65

Actuarial Methods and Assumptions

	Canadian Plan	U.S. Plan
Actuarial valuation date	1/1/2014	1/1/2014
Actuarial cost method	Projected Unit Cost	
Asset valuation method	Market value basis	
Actuarial assumptions:		
Investment rate of return	5.25%	6.00%
Projected salary increases	2.75%	2.75%
Includes inflation at	2.70%	2.75%

Funded Status and Funding Progress

The funded status of the Canadian plan as of January 1, 2014, the most recent actuarial valuation date, is as follows:

Schedule of Funding Progress (in thousands)

	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	$ 16,386	$ 15,244	$ (1,142)	107%	$ 1,561	N/A

The funded status of the U.S. plan as of January 1, 2014, the most recent actuarial evaluation date, is as follows:

Schedule of Funding Progress (in thousands)

	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	$ 24,547	$ 21,284	$ (3,263)	115%	$ 2,327	N/A

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.

8. 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 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.

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.

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, 2014 and 2013 (in thousands):

	2014	2013
Annual required contribution		
Normal cost	$ 559	$ 643
Amortization of UAAL	1,255	1,260
Annual required contribution	1,814	1,903
Interest on OPEB obligation	239	203
ARC adjustment	(372)	(315)
Annual OPEB cost	1,681	1,791
Contribution made	(712)	(743)
Increase in net OPEB obligation	969	1,048
Net OPEB obligation - beginning of year	6,894	5,846
Net OPEB obligation - end of year	$ 7,863	$ 6,894

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 (in thousands):

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 1,681	42%	$ 7,863
2013	1,791	41%	6,894
2012	1,768	30%	5,846

As of January 1, 2014, the total actuarial accrued liability for future benefits was $23,549,000. Since there are no Plan assets, the entire liability is unfunded. The annual payroll of employees eligible to be covered by the Plans was $3,458,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 681%.

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: 7.0% grading down by 0.25% each year through 2024, and 4.5% per year thereafter

U.S. Plan: 7.5% grading down by 0.25% each year through 2024, 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
IRS Fully Generational, using scale BB

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

9. 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 $6,300,000 and $7,300,000 in rental income in 2014 and 2013, respectively, from the duty-free enterprises. This amount included approximately $2,000,000 and $2,900,000 of additional contingent rental payments based upon the sales levels of the lessees in 2014 and 2013, respectively.

The Authority maintains a lease through October 31, 2016 with the Canadian duty-free enterprise. Based upon the agreement, the minimum rental payments to be received by the Authority are approximately $1,800,000 for 2015; subsequent years' minimum rentals are based on 75% of the immediately preceding year's minimum and contingent rental payments.

The Authority maintains a lease with the U.S. duty-free enterprise through December 31, 2020. Based upon the agreement, the minimum rental payments to be received by the Authority are approximately $1,900,000 for 2015; 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 $1,700,000 in 2014 and $2,100,000 in 2013.

Minimum amounts to be received under this lease are as follows (in thousands):

2015	$ 1,402
2016	1,402
2017	1,402
2018	1,402
2019	642
	$ 6,250

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.

10. 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.

11. 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, 2014, the Authority had contractual commitments of approximately $13,200,000, primarily related to ongoing capital construction projects.

Litigation

The Authority is involved in various legal proceedings. The outcome of these proceedings cannot be determined at this time.

12. 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)	**2014**	2013
Debt service funds:		
Debt service fund	**$ 2,954**	$ 2,914
Debt service reserve fund	**3,313**	3,712
Operating expense reserve account	**4,588**	3,883
Total restricted assets	**$ 10,855**	$ 10,509

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

For the year ended December 31, 2014

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)
1/1/2014	$ 16,386	$ 15,244	$ (1,142)	107%	$ 1,561	N/A
1/1/2012	$ 13,307	$ 14,604	$ 1,297	91%	$ 1,642	79%
1/1/2010	$ 12,474	$ 14,332	$ 1,858	87%	$ 1,748	106%

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)
1/1/2014	$ 24,547	$ 21,284	$ (3,263)	115%	$ 2,327	N/A
1/1/2012	$ 19,992	$ 20,511	$ 519	97%	$ 2,584	20%
1/1/2010	$ 18,285	$ 19,761	$ 1,476	93%	$ 2,848	52%

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)
1/1/2014	$ -	$ 23,549	$ 23,549	0%	$ 3,458	681%
1/1/2013	$ -	$ 23,679	$ 23,679	0%	$ 3,390	698%
1/1/2012	$ -	$ 23,422	$ 23,422	0%	$ 3,880	604%