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Certified Public Accountants

September 25, 2019

The General Manager and Members of the Buffalo Sewer Authority Board
Buffalo, New York

In planning and performing our audit of the basic financial statements of the Buffalo Sewer Authority (the "Authority") as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, we considered the Authority's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined below:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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

During our audit, we identified certain matters involving the internal control over financial reporting, other operational matters and recently issued reporting requirements that are presented for your consideration. This letter does not affect our report dated September 25, 2019 on the financial statements of the Authority. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized in Exhibit I.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

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Collateral

As of June 30, 2019, the Authority's deposits were undercollateralized by $3,105,560. While the deposits were fully collateralized on July 1, 2019, we recommend that the Authority implement a process to ensure that deposits are consistently fully collateralized, and inform the bank of large deposits to ensure that the full bank balance is covered.

New Financial Reporting Standards

The Governmental Accounting Standards Board ("GASB") released Statements No 84, *Fiduciary Activities* ("GASB 84") and No. 87, *Leases* ("GASB 87"), which will impact the Authority's financial statement presentation for the fiscal years ending June 30, 2020 and June 30, 2021, respectively.

The objective of GASB 84 is to enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. A summary follows:

> GASB 84 describes four fiduciary funds that should be reported, (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. These activities should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Currently, the Authority reports an Agency Fund and a Private Purpose Trust Fund as the Fiduciary Funds, GASB 84 may rename the funds to Custodial Fund. Further, the new guidance provides that an activity meeting the following criteria should be reported as a fiduciary activity:
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> 1. Assets are controlled by the government.
> 2. Assets are not derived from own source revenues.
> 3. Assets are not derived from government mandated or voluntary nonexchange transactions.
>
> In addition, the activity must meet one of the following:
>
> a. Assets are held in a qualifying trust where the government is not the beneficiary, the assets are legally protected from creditors, and dedicated to providing benefits to recipients.
>
> b. The assets aren't derived from the government's provision of goods or services and:
>
>   i. Assets are held for the benefit of individuals without the government having administrative or direct financial involvement.
>
>   ii. Assets are held for the benefit of outside organizations that are not part of the government's reporting entity.

The objective of GASB 87 is to better meet the needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. In preparation for implementation, it is recommended that the Authority compile a list of all current capital and operating leases and evaluate those leases for identified potential exceptions to the GASB.

GASB has adopted several new pronouncements in addition to GASB 84 and GASB 87, which may have a future impact upon the Authority:

GASB Statement No. 89—The Authority is required to implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the fiscal year ending June 30, 2021. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs.

GASB Statement No. 90—The Authority is required to implement GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, effective for the fiscal year ending June 30, 2020. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

GASB Statement No. 91—The Authority is required to implement GASB Statement No. 91, *Conduit Debt Obligations*, effective for the fiscal year ending June 30, 2022. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related noted disclosures.