
Certified Public Accountants

September 30, 2021

The General Manager and Members of
the Buffalo Sewer Authority Board
Buffalo Sewer Authority
10th Floor City Hall
Buffalo, New York 14202-3378

We have audited the financial statements of the Buffalo Sewer Authority (the “Authority”) as of and for the year ended June 30, 2021, and have issued our report thereon dated September 30, 2021. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 9, 2021, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding other matters noted during our audit in a separate letter to you dated September 30, 2021.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements. Except for the matters discussed below, there have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2021.

During the year ended June 30, 2021, the Authority implemented GASB Statements No. 84, *Fiduciary Activities*, No. 92, *Omnibus 2020*, and No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. GASB Statement No. 92 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB Statement No. 97 increases consistency and comparability related to the reporting of fiduciary component units, mitigates costs associated with the reporting of certain defined contribution plans and enhances the relevance, consistency and comparability of the accounting and reporting for internal Revenue Code Section 457 deferred compensation plans. The implementation of GASB Statements No. 84, 92 and 97 did not have a material impact on the Authority's financial position or results from operations.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements for the year ended June 30, 2021 are the allowance for receivables, and the liabilities for compensated absences, judgments and claims, other postemployment benefits and the net pension.

Management's estimate of the allowance for receivables is based on historical collections. Management's estimate of the liability for compensated absences is based on available information regarding eligibility, leave balances accrued and current compensation rates. Management's estimates of the liabilities for judgments and claims, other postemployment benefits and the net pension are based on information obtained from third party specialists, including information obtained from insurance companies, loss run reports obtained from third party administrators, and an actuarial valuation performed by a consultant. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified material misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management. Those items are included within the adjusting journal entries for the year ended June 30, 2021, which are attached to the management representation letter dated September 30, 2021 as Exhibit I (copy attached).

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Authority's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain representations from management, which are included in the attached letter dated September 30, 2021.

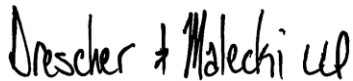
Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

This report is intended solely for the information and use of the Board Members and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Drescher & Malecki LLP in black ink.

September 30, 2021

BUFFALO

SEWER AUTHORITY

September 29, 2021

Drescher & Malecki LLP
3083 William St. Suite 5
Cheektowaga, NY 14227

This representation letter is provided in connection with your audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Buffalo Sewer Authority (the "Authority") as of June 30, 2021 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position and results of operations of the various opinion units of the Authority in accordance with accounting principles generally accepted for governments in the United States of America ("U.S. GAAP").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 29, 2021.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 9, 2021, for the preparation and fair presentation of the basic financial statements referred to above in accordance with U.S. GAAP.
- The basic financial statements referred to above have been fairly presented in accordance with U.S. GAAP and include all properly classified funds, required supplementary information, supplementary information and notes to the basic financial statements.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.

- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- There are no identified material uncorrected misstatements.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues or general revenues.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.

- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have provided to you our analysis of the entity's ability to continue as a going concern, including significant conditions and events present, and if necessary, our analysis of management's plans, and our ability to achieve those plans.

- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Authority has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Authority is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
 - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, including Management's Discussion and Analysis:

- We acknowledge our responsibility for the presentation of the required supplementary information in accordance with U.S. GAAP.
- We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP.
- The methods of measurement or presentation have not changed from those used in the prior period and the basis for our assumptions and interpretations underlying those measurements or presentations, are reasonable and appropriate in the circumstances.

Supplementary Information in Relation to the Financial Statements as a Whole

With respect to the supplementary information accompanying the financial statements:

- We acknowledge our responsibility for the presentation of the supplementary information in accordance with U.S. GAAP.


- We believe that the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP.
- The methods of measurement or presentation have not changed from those used in the prior period and the basis for our assumptions and interpretations underlying those measurements or presentations are reasonable and appropriate in the circumstances.
- We acknowledge our responsibility to include the auditor's report on the supplementary information in any document containing the supplementary information and that indicates the auditor reported on such supplementary information.
- We acknowledge our responsibility to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

Other Specific Representations


- The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 87, *Leases*; No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and No. 93, *Replacement of Interbank Offered Rates*, effective for the year ending June 30, 2022, No. 91, *Conduit Debt Obligations*, effective for the year ending June 30, 2023, and No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; and No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending June 30, 2023. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements No. 87, 89, 91, 93, 94 and 96 will have on its financial position and results of operations when such statements are adopted.
- The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, interfund receivables and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in account balances.
- We have received and approve the various adjusting journal entries that were proposed by you for recording our books and recorded and reflected in the financial statements. We have posted these adjusting journal entries to our records. The proposed adjusting journal entries are described in Exhibit I.
- We agree with the work of specialists in evaluating the workers' compensation, other post-employment benefits, and net pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialists in respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters have had an impact on the independence or objectivity of the specialists. We believe that the actuarial assumptions and methods used to measure workers' compensation, other postemployment benefits and the net pension liabilities and costs are appropriate in the circumstances.

- The Authority has contracts with districts outside of the City. Revenues related to the outside districts are recorded when measurable, as such it is the Authority's current policy to recognize revenues related to these contracts when measurable.
- We have no intention of terminating our pension plan, or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our pension plan to which we contribute. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We do not plan to make frequent amendments to our pension or other postemployment benefit plans.
- The Authority has had a committee analyze, justify and provide recommendations relating to all sole source and professional services contracts to the Board for approval.
- Management has reviewed the complete listing of sole source contractors and verified that the contractors contained within the listing meet the criteria as a sole source provider as outlined in General Municipal Law.
- The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Authority currently reports all of its risk management activities in its General Fund. The Authority assumes the liability for most risk including, but not limited to, workers' compensation and general liability. The Authority maintains insurance for claims in excess of \$250,000. Management estimates the liability for these claims and judgments to be \$1,289,736, of which \$64,487 is estimated to be payable within one year. This estimate is based on a June 30, 2021 actuarial valuation. The government-wide financial statements reflect the liability for the workers' compensation.
- On March 18, 2014, the Authority's Long Term Control Plan to reduce the amount of sewage and storm-water run-off that flow from the City's combined sewer system was approved by the U.S. Environmental Protection Agency and the New York State Department of Environmental Conservation. The Authority has committed to investing \$396 million on these projects over 20 years. The Authority plans to fund these projects with committed fund balance and long-term financing, and therefore, will record a liability when such financing is obtained.
- Management has committed \$2,000,000 of fund balance for loss contingencies.
- The Authority reports restricted fund balance for debt of \$53,024,826 and \$4,670,487, within the General Projects Fund and Debt Service Fund, respectively.
- The Authority has determined that fund balance committed for capital projects within the General Fund and General Projects Fund of \$10,808,810 and \$29,988,591, respectively, is comprised primarily of designated cash and should be classified as such. Additionally, based on its current five-year capital plan, the Authority anticipates future capital appropriations to approximate \$254 million.
- The Authority considers encumbrances to be significant for amounts that are encumbered in excess of \$400,000. Significant encumbrances are disclosed in the footnotes to the basic financial statements.

- The Authority has determined that the ending balance in construction in progress represents ongoing capital projects that have not yet been completed, and as such do not represent depreciable assets.
- In addition to audit services based on information in the Authority's trial balance, Drescher & Malecki LLP has assisted the Authority in preparing the Authority's financial statements for the year ended June 30, 2021. In conjunction with the preparation of the financial statements the Authority has performed the following functions:
 - Made all management decisions and performed all management functions.
 - Designated Ronald Brown, Executive Secretary, whom we believe has suitable skill, knowledge, and/or experience to perform bookkeeping functions and who has overseen the above services.
 - Evaluated the adequacy and results of the services performed.
 - Evaluated and accepted responsibility for the results of the services performed.
 - Established and maintained internal controls, including monitoring ongoing activities.
- Authority management understands that Drescher & Malecki LLP has not performed any management functions or made management decisions on behalf of the Authority. Any nonattest services were performed in accordance with applicable professional standards issued by the American Institute of Certified Public Accountants.



Oluwole A. McFoy, P.E., General Manager



Ronald Brown, Executive Secretary

Buffalo Sewer Authority
Proposed Adjusting Journal Entries
For the Year Ended June 30, 2021

Exhibit I

| Account | Description | Debit | Credit |
|---|--------------------------------|-------------------|-------------------|
| Proposed adjusting Journal Entries JE # 1 | | | |
| To reclass items out of the Agency fund per GASB 84. | | | |
| 100-101-210 | FIRST NIAGARA NOW DISBURSE ACT | \$ 5,905 | |
| 600-202-300 | 0600 ACCOUNTS PAYABLE (SYS) | 207 | |
| 600-210-930 | PAYABLES BSA - MISCELLANEOUS | 386 | |
| 600-210-934 | PAYABLES BSA - BANKRUPTCY | 5,312 | |
| 100-202-000 | 0100 ACCOUNTS PAYABLE | | \$ 5,905 |
| 600-103-200 | TEMPORARY INVESTMENTS-BSA | | 5,905 |
| Total | | <u>11,810</u> | <u>11,810</u> |
| Proposed adjusting Journal Entries JE # 2 | | | |
| To accrue additional capital expenditures at 6/30/21. | | | |
| 200.200500.490740 | BABCOCK PUMP STATION RTC CONST | 209,342 | |
| 200.200501.490740 | MAIN FEED ELEC UPGRADE 13.8KV | 196,420 | |
| 200-202-000 | 0200 ACCOUNTS PAYABLE | | 405,762 |
| Total | | <u>\$ 405,762</u> | <u>\$ 405,762</u> |