MANAGEMENT LETTER

September 17, 2007

The Board of Directors and Management
Buffalo Fiscal Stability Authority
Buffalo, New York

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Buffalo Fiscal Stability Authority (the Authority) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. In addition, because of inherent limitation in internal control, including the possibility of management override of controls, misstatements due to errors or fraud may occur and not be detected by such controls. We considered the following to be a significant deficiency in internal control under these new standards.

1. <u>Financial accounting and external reporting</u>

Among other valuable services, informative monthly financial reports are prepared by management for the Board to use in monitoring operations. As part of its due diligence, management proactively communicates with us to ensure it understands and applies new accounting pronouncements when they become effective.

Historically, management has requested that we provide feedback and assistance with closing entries identified in the audit process, as well as adjustments required by GASB 34, and in drafting the annual financial statements and footnote disclosures. While this is typical of an organization of the Authority's size, an auditor cannot technically be part of an entity's system of internal control. We believe management's need for our assistance results in a control deficiency over financial reporting that must be communicated to you.

AWARENESS ISSUE

2. **Postemployment Benefits**

The GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Statement No. 45 is being phased-in and will be effective for the Authority for the year ended June 30, 2008.

Other postemployment benefits (OPEB) include benefits provided to employees after active service has ended, such as healthcare and other benefits. The new standard requires a change from accounting for such benefits when paid to full accrual. Under the full accrual method, the cost is recognized as an expense as the benefits are earned rather than when paid. Governments may continue to fund these costs as the benefits are paid, but must create a liability for any unpaid accrued expenses. The standard is intended to foster improved accountability and establish a better foundation for informed policy decisions about the level and types of benefits provided and the potential financing of those benefits.

Generally, the Standard:

- Results in reporting the estimated cost of the benefits as expense each year during the years that employees are providing services to the Authority in exchange for those benefits
- Provides more accurate information about the total cost of the services that the Authority provides
- Clarifies whether the amount the Authority has paid or contributed for OPEB during the report year has covered its annual OPEB cost. Generally, the more of its annual OPEB costs that the Authority chooses to defer, the higher its unfunded actuarial accrued liability and future cash flow demands
- Provides better information to report users about the Authority's unfunded actuarial accrued liabilities, and the changes in the funded status of such benefits over time
- Will require OPEB recognition, even if retirees pay their own insurance, but can access the Authority's discounted group rates

Implementation will require additional disclosures and may involve periodic actuarial valuations. The Authority should be planning for the need of actuarial services.

We have discussed these comments with Authority personnel, would be pleased to discuss them in further detail, perform any additional studies, or to assist you in implementing the recommendations.

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