



June 14, 2007

Board of Commissioners
Niagara Frontier Transportation Authority
Buffalo, New York

Commissioners:

In planning and performing our audit of the financial statements of Niagara Frontier Transportation Authority (the Authority) as of and for the year ended March 31, 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 opinion 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.

OTHER COMMENTS AND MATTERS

Internal Controls

The operations of the money center have a greater risk due to the handling of large quantities of cash. Although our testing revealed no unusual occurrences, we believe the recent change in management in the money center provides the Authority an opportunity to review and strengthen internal controls where appropriate. The Authority has advised us that it has initiated review of this area prior to the year end audit.

Passenger Facility Charges

Passenger facility charges have been consistently reported on a cash basis based on previous independent auditor guidance. Upon further research, we determined that passenger facility charges should be recorded on an accrual basis. Our discussions with management indicated these amounts will be recorded at year end in the future.

PRIOR YEAR COMMENTS

Accounting Operations

In the prior year, we suggested the NFTA review the year end consolidation process to determine if there were ways to streamline these procedures. We are pleased to report that during the current year, we noted improvements in the year end consolidation procedures which were implemented to streamline this process.

Unused Sick Time

Certain unused sick time that is payable to Metro employees at retirement is recorded when paid. Although annual payments are immaterial to the financial statements, we continue to recommend the Authority prepare an estimate of the liability to eligible employees and continue to monitor the amount of this liability in the future.

AWARENESS ISSUES

Postemployment Benefits

The GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and 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 in fiscal year 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 on a pay-as-you-go basis to the full accrual method. Under the full accrual method, the cost is recognized as an expense as the benefits are earned rather than the year the benefits are 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 will be.
- Provides better information to report to users about the Authority's unfunded actuarial accrued liabilities, and the changes in the funded status of such benefits over time.

Implementation will require additional disclosures as well as periodic actuarial valuations, based on the number of members in the plan.

GASB Statement No. 49

The GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and will be effective for the Authority's fiscal year ending March 31, 2009. This statement addresses how state and local governments should account for and report pollution remediation obligations. Generally, GASB 49 requires that state and local governments record a liability at the current value of the costs expected to be incurred to remediate the obligations. In situations where the work is being performed for other parties, the expected recoveries from those other parties that are realized or realizable should be reported as recovery assets.

We have already discussed many of these comments and suggestions with various Authority personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

