

March 9, 2008

The Board of Directors  
Niagara Falls Water Board  
5815 Buffalo Avenue  
Niagara Falls, New York 14304

Dear Board Members:

We have completed our audit of the financial statements of the Niagara Falls Water Board (the Board) for the year ended December 31, 2007, and have issued our report thereon dated March 9, 2008. In planning and performing our audit of financial statements, we considered the Board's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control.

We have developed the following recommendations concerning matters related to the Board's internal control and certain observations and recommendations on other accounting, administrative and operating matters.

The contents of this letter and our suggestions should not be construed as criticism of or a reflection on any employee or management. In fact, our discussions and interaction with management provide an excellent opportunity to exchange ideas and formulate these recommendations. In reviewing this report, it is important to remember that the Board's many efficient procedures are not mentioned; this report is by nature critical for the purpose of suggesting means of improving internal control and administrative efficiencies. We welcome the discussion of the ideas expressed herein, and would be pleased to assist in the implementation of any desired actions.

Establish Written Policy for  
Posting of Journal Entries

In the performance of our procedures and inquiries over journal entries, it was noted that the Board does not have a formal, written journal entry policy. In order to improve internal control over the Board's financial reporting system, we recommend that the Board draft a formal written policy regarding the posting of manual journal entries, including year-end accruals. Such a policy should include management determined thresholds at which a review or approval of the entry would be required; segregation of duties between the proposal, review, and posting of entries; and adequate supporting documentation that should be provided to support the journal entries recorded. While management has a journal entry approval process in practice, given the recent additions to staff, coupled with the Board's assumption of tasks performed by the City, we recommend that this policy be written and approved by the Board.

### Issues with the City of Niagara Falls

The Board continues to have outstanding amounts due from the City of Niagara Falls (the City) which have not been settled since the Board commenced operations. The City has been found liable for the health care costs of employees who retired before the formation of the Niagara Falls Water Board. The City does not remit cash receipts in a timely fashion to the Board. It is further noted that the City does not communicate sufficient information regarding unpaid water and sewer rents added to the tax rolls. Specifically: 1) proceeds from in-rem property sales; 2) regular maintenance on unpaid accounts; and 3) write-offs of bad debts. This impacts the Board's operations as it could result in cash not being obtained when needed or financial statements being misstated. We recommend that the Board rectify this situation immediately by establishing a channel for communication or consulting with the Board's attorneys in order to determine if legal action is necessary.

### Internal Control Over Cash Receipts

As of March 9, 2008, the Board has implemented a lockbox system and contracted with HSBC Bank to administer the system. HSBC Bank is administering the lockbox system at no cost to the Board. This process is more efficient and will provide better cash control and timely deposit of all customer remittances. Information will be retrieved daily from HSBC Bank by the Board and then sent to the City, as the posting of cash receipts to customers' accounts is still handled by the City's Billing and Collections and Finance Departments. The Board is in the process of evaluating the other billing systems to allow for a complete break from the City when the current contract for services is completed. This will allow the Board to exercise maximum control over the cash receipts process.

### New Reporting Requirements

The Governmental Accounting Standards Board (GASB) recently issued several statements regarding the financial reporting requirements of governmental entities. The newly issued pronouncements include the following:

- GASB Statement No. 43 - "Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans," was required to be implemented for the year ended December 31, 2006. The Board does not currently have a Benefit Plan.
- GASB Statement No. 45 - "Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions," is required to be implemented for the year ending December 31, 2008.
- GASB Statement No. 46 - "Net Assets Restricted by Enabling Legislation," was required to be implemented for the year ended December 31, 2006 and has been implemented.

- GASB Statement No. 47 - "Accounting for Termination Benefits," was required to be implemented for the year ended December 31, 2006 and has been implemented.
- GASB Statement No. 48 - "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," was required to be implemented for the year ended December 31, 2007 and has been implemented.

GASB Statement 45 - "Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions," requires the Board to implement these reporting requirements for the year ending December 31, 2008. This statement requires that the Board account for and report the annual cost of retiree health insurance premiums for both past service and ongoing costs for retirees and active employees while they are employed. The implementation of this statement will require an actuarial valuation of the liability as of January 1, 2008 and biannually thereafter. An actuary has been retained and the necessary information has been sent to them. The resulting liability for these costs could have a dramatic impact on the net assets of the Board.

#### Public Authorities Accountability Act

Effective for years beginning on or after January 1, 2006, the Public Authorities Accountability Act (the Act) was passed into law. This Act amends the public authorities law. This law includes, among other things, that the Board must submit to the sponsoring government a complete report detailing the following nine items within ninety days of its fiscal year end:

1. The Board's operations and accomplishments;
2. The receipts and disbursements or revenues and expenses for the fiscal year;
3. The assets and liabilities at the end of the fiscal year;
4. A schedule of bonds or notes outstanding at the end of the year together with a schedule that details the debt activity;
5. A compensation schedule by position, title and name;
6. A listing of the projects undertaken during the fiscal year;
7. A listing of all the real property having a fair market value in excess of \$15,000 that the Board intends to dispose of;
8. The Board's code of ethics; and
9. An assessment of the effectiveness of its internal control structure and procedures.

Every financial report submitted pursuant to the Act shall be approved by the Board and shall be certified in writing by the Chief Executive Officer and the Chief Financial Officer that, based on the Officer's knowledge:

1. The information provided therein is accurate, correct and does not contain any untrue statements of material fact.
2. Does not omit any material fact, which, if omitted, would cause the financial statements to be misleading in light of the circumstances under which such statements are made and;

3. Fairly presents in all material respects the financial condition and results of operations of the Authority as of and for the periods presented in the financial statements.

We recommend that management closely monitor the Board's implementation of the applicable sections of the Act. We have been informed by management that the Board has established an audit committee as required by the Act.

Status of Prior Recommendations

Generally, the comments in this letter are the same or similar those made in our letter dated March 9, 2007. Two of the comments are nearly identical and relate to the Board's responsibilities under the "Public Authorities Accountability Act" and "New Reporting Requirements" under the Governmental Accounting Standards Board. These are repeated not as a failing of the Board, but to emphasize their significance and to refer to the progress made toward the compliance with GASB 45. Three of the other comments are recurring, and are indicative of the evolution of the internal control structure of the Board as it separates from the City, takes on added personnel and addresses issues related to its autonomy.

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We take this opportunity to thank the staff of the Niagara Falls Water Board for the courtesy and cooperation extended to us during our audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

TOSKI, SCHAEFER & CO., P.C.

Ronald C. Toski, CPA  
Managing Director