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March 18, 2011

CONFIDENTIAL

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, 2010. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We now present for your consideration our comments and recommendations based upon observations made during our audit.

This report is intended solely for the information and use of the Board, management and others within the Niagara Falls Water Board.

Status of Prior Recommendations

We reviewed the disposition of recommendations included in our letter dated April 6, 2010. The following is a summary of the actions taken by the Board with regard to our recommendations:

Accounting System - In 2009, we noted that the New World Accounting System did not provide accurate "trial balance listing" and "budget performance" reports that could be used to prepare an overall balanced trial balance. Furthermore, we noted that the billing module of the software was misposting overpayments throughout the year which resulted in discrepancies in various accounts, including cash, receivables and fund balance. In order to improve the financial reporting system of the Board, we recommended that the accounting software be evaluated and tested for overall accuracy on a routine basis in order to identify and resolve any potential problems in a timely manner.

Status - We noted that the New World accounting system provided accurate "trial balance listing" and "budget information" reports during 2010. No discrepancies in any accounts were noted during the performance of the 2010 audit procedures.

Reconciliation of Bank Accounts - In 2009, we noted that one bank account had not been reconciled formally as of December 31, 2009. We recommended that all bank reconciliations be prepared on a timely basis.

Status - We noted that all bank accounts had been reconciled timely as of December 31, 2010.

Perform Assessment of the Effectiveness of Internal Controls - In 2009, we noted that Board had not conducted a formal, documented process to assess the effectiveness of its internal control structure and procedures, indicated whether or not the internal controls are adequate, and prepared a statement that it has done so. Section 2800 (1)(a)(9) and Section 2800 (2)(a)(8) of the Public Authorities Law require that all public authorities complete an annual assessment of the effectiveness of their internal control structures and procedures. The internal control assessment is an annual evaluation performed by management to determine the effectiveness of its internal control system. The New York State Authority Budget Office has identified five major components of an internal control assessment, as follows:

1. Determination of the Board's major business functions.
2. Determination of the risks associated with its operations.
3. Identification of the internal control systems in place.
4. Assessment of the extent to which the internal control system is effective.
5. Taking corrective action.

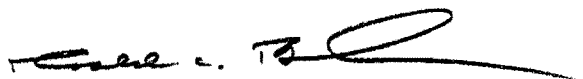
Status - We noted that the Board has established a formal plan to assess the effectiveness of internal controls. This is anticipated to be implemented in 2011.

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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