NIAGARA FALLS WATER BOARD

Financial Statements and
Management's Discussion and Analysis

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

NIAGARA FALLS WATER BOARD

Contents

	Page
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 9
Financial Statements:	
Statements of Net Assets	10 - 11
Statements of Revenue, Expenses and Changes in Net Assets	12
Statements of Cash Flows	13 - 14
Notes to Financial Statements	15 - 32
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters, Including Compliance with Investment Guidelines, Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	33 - 34
Independent Auditors' Report on Compliance with Requirements That Could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	35 - 36
Schedule of Expenditures of Federal Awards	37
Notes to Schedule of Expenditures of Federal Awards	38
Schedule of Findings and Questioned Costs	39 - 40
Status of Prior Audit Findings	41

* * * * *

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

300 ESSJAY ROAD, STE 115
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Niagara Falls Water Board:

We have audited the accompanying statements of net assets of the Niagara Falls Water Board (the Board) as of December 31, 2011 and 2010, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Niagara Falls Water Board as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2012, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, including compliance with investment guidelines for public authorities and the Board's investment policy. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

EMAIL: toski@toskicpa.com
WEBSITE: www.toskicpa.com

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Board taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 24, 2012

NIAGARA FALLS WATER BOARD

Management's Discussion and Analysis

December 31, 2011 and 2010

As management of the Niagara Falls Water Board (the Board), we offer readers of the Board's financial statements this narrative and analysis of the financial activities of the Board for the years ended December 31, 2011 and 2010.

Following this Management's Discussion and Analysis (MD&A) are the financial statements of the Board together with the notes thereto. Please read the MD&A in conjunction with the Board's financial statements and the accompanying notes in order to obtain a full understanding of the Board's financial position and results of operations.

The Board was created by an Act of the State of New York, as more fully described in note 1 to the financial statements, and commenced operations on September 25, 2003. In accordance with an agreement with the City of Niagara Falls, New York (the City) the Board received all assets, liabilities and operating activities (including all personnel) of the City's former Water and Sewer Funds. In return, the Board issued debt, which was used to defease outstanding City bonded debt relating to its Water and Sewer Funds.

Financial Highlights

- The assets of the Board exceeded its liabilities by $62,287,582 and $65,674,521 (net assets) at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, $15,746,755 and $18,864,498 (unrestricted net assets), respectively, may be used to meet the Board's ongoing obligations.
- The Board's operating income for the years ended December 31, 2011 and 2010 was $554,153 and $97,626, respectively.
- The Board's total bond indebtedness decreased by $2,660,000 during the current fiscal year, as a result of principal payments made.
- The Board reflected a liability for postemployment benefits of $8,917,841 and $6,365,150 at December 31, 2011 and 2010, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements which include the financial activities of the Board, and its blended component unit, the Niagara Falls Public Water Authority (the Authority). The reasons for blending the financial activities are explained in note 1 to the financial statements. An overview of the responsibilities of the Board and the Authority is presented below.

Board	Authority
* Owns the System	* Issues debt
* Operates and maintains the System	* Provides proceeds of debt for construction and improvements
* Responsible for System improvements	* Provides oversight regarding adequacy of revenues and System conditions
* Sets rates and collects revenues	
* Pays debt service on bonds	

The financial statements are designed to provide readers with a broad overview of the Board's finances in a manner similar to a private-sector business, and are organized as follows:

- The statement of net assets presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.
- The statement of revenue, expenses and changes in net assets presents information on how the Board's net assets changed during the reporting period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows for future fiscal periods (e.g., uncollected water and sewer rents, earned but unused vacation and postemployment benefits).
- The statement of cash flows presents information depicting the Board's cash flow activities for the reporting period and the effect that these activities had on the Board's cash and equivalent balances.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 32 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Board's financial position. Assets exceeded liabilities by $62,287,582 at December 31, 2011, as compared to $65,674,521 at December 31, 2010, as presented below:

Niagara Falls Water Board's Net Assets

	December 31, 2011	December 31, 2010	Increase/(Decrease) Dollars	Increase/(Decrease) Percent
Current assets	$ 26,687,826	26,566,707	121,119	0.46%
Noncurrent assets	158,985,764	161,410,289	(2,424,525)	(1.50%)
Total assets	185,673,590	187,976,996	(2,303,406)	(1.23%)
Current liabilities	15,485,869	11,198,993	4,286,876	38.28%
Noncurrent liabilities	107,900,139	111,103,482	(3,203,343)	(2.88%)
Total liabilities	123,386,008	122,302,475	1,083,533	0.89%
Invested in capital assets, net of related debt	14,963,786	11,944,695	3,019,091	25.28%
Restricted	31,577,041	34,865,328	(3,288,287)	(9.43%)
Unrestricted	15,746,755	18,864,498	(3,117,743)	(16.53%)
Total net assets	$ 62,287,582	65,674,521	(3,386,939)	(5.16%)

The Board's investment in capital assets, net of related debt, is in a surplus position of $14,963,786 and $11,944,695 at December 31, 2011 and 2010, respectively. This results from the timing of the amortization of the Board's capital debt, as outstanding principal for most of the Board's serial bonds is not paid until late into the life of the debt, while depreciation occurs annually.

The Board's unrestricted net assets were $15,746,755 and $18,864,498 at December 31, 2011 and 2010, respectively. These assets are not limited as to how and for what they may be used. The restricted debt service portion of the Board's net assets ($13,236,377 and $15,688,921 at December 31, 2011 and 2010, respectively) represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net assets ($18,340,664 and $19,176,407 at December 31, 2011 and 2010, respectively) represents funds that are set aside primarily for the reconstruction of the Falls Street Tunnel.

A comparison of current assets to current liabilities of the Board at December 31, 2011 and 2010 follows:

	2011	2010
Current assets	$ 26,687,826	26,566,707
Current liabilities	15,485,869	11,198,993
Ratio of current assets to current liabilities	1.72	2.37

The Board's total net assets decreased by $3,386,939 during the year ended December 31, 2011, as compared to an increase of $1,139,355 for the year ended December 31, 2010. The primary reason for the 2011 decrease was a $4,982,821 decrease in nonoperating revenue relative to a new one-time grant in 2010. Key elements of the current year's increase in net assets are as follows:

Niagara Falls Water Board's Changes in Net Assets

	2011	2010	Increase/ (decrease)
Total operating revenue	$ 23,496,202	22,554,102	942,100
Total operating expenses	(22,942,049)	(22,456,476)	(485,573)
Operating income	554,153	97,626	456,527
Total nonoperating revenue (expenses)	(3,941,092)	1,041,729	(4,982,821)
Change in net assets	$ (3,386,939)	1,139,355	(4,526,294)

The Board's major sources of operating revenue are charges for water and sewer services which comprise approximately 98% of total operating revenue. These revenues combined comprise the approximate $900,000 increase in operating revenue over 2010. These revenues are dependent upon rates charged for these services, with such rates being determined by the Board. Please see the section entitled "Economic Factors and Next Year's Rates" within this MD&A for a listing of the rates charged during 2011 and approved rates for 2012.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 49% of all operating expenses. In 2011, these costs totaled approximately $11.2 million as compared to $10.4 million in 2010, representing an approximate 8% increase in this area. This increase is due to the rising costs of providing health care and other employee benefits.

Within the non-operating revenue (expenses) category, interest expense is by far the largest expense item and represents the cost of carrying serial bonds totaling $101,015,000 and $103,675,000 at December 31, 2011 and 2010, respectively. This expense was offset in 2010 by $5,470,953 in grant revenue related to a one-time federal grant obtained through the U.S. Environmental Protection Agency for the North Gorge Interceptor Restoration Project (North Gorge Project).

The following is a summary of the Board's cash flow activities for the years ended December 31, 2011 and 2010:

	2011	2010
Cash flows provided by (used in):		
Operating activities	$ 9,094,293	9,126,547
Capital and related financing activities	(12,853,652)	(10,875,931)
Investing activities	3,967,381	2,068,268
Net increase in cash and equivalents	208,022	318,884
Cash and equivalents at beginning of year	15,831,144	15,512,260
Cash and equivalents at end of year	$ 16,039,166	15,831,144

The Board's available cash and equivalents increased by $208,022 during the year ended December 31, 2011, as compared to an increase of $318,884 during the year ended December 31, 2010. Cash provided by operating activities reflected a positive balance of $9,094,293 for the year ended December 31, 2011.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets (net of accumulated depreciation) as of December 31, 2011, amounted to $122,497,560, as compared to $119,379,455 at December 31, 2010. This includes land, plant and transmission (infrastructure type assets), machinery and equipment, and construction in progress. The Board's greatest investment in capital assets comes in the form of infrastructure. Significant factors affecting capital assets during the reporting period include:

- The Board recorded total additions to capital assets of $7,847,111.
- Construction in progress increased by $7,830,611, and decreased by $13,647,403 which represents completed capital projects transferred to their applicable asset categories.
- The Board recorded total depreciation of $4,729,006 and $4,524,976 for the years ended December 31, 2011 and 2010, respectively.

A summary of capital assets, net of depreciation where applicable, is as follows:

	2011	2010
Nondepreciable assets:		
Land	$ 463,713	463,713
Construction in progress	7,528,960	13,345,752
Depreciable assets:		
Plant and transmission assets (water system)	62,930,385	65,441,595
Plant and transmission assets (wastewater system)	50,338,942	38,877,349
Machinery and equipment	1,235,560	1,251,046
Total	$ 122,497,560	119,379,455

Construction in progress represents ongoing capital construction which will be transferred to the appropriate asset category (and begin to be depreciated) upon completion.

More detailed information about the Board's capital assets is presented in the notes to financial statements.

Serial Bonds - At December 31, 2011, the Board had outstanding serial bonds totaling $101,015,000, as compared to $103,675,000 at December 31, 2010. During the year ended December 31, 2011, the Board made principal payments of $2,660,000 on these bonds.

The Board used bond debt to finance the original purchase of the assets (net of liabilities and including the water, sewer and storm water systems) from the City. In the future, the Board may utilize bond debt issuances as a primary source of funds for construction, renovations and system improvements.

Environmental Facilities Corporation (EFC) Revenue Note - At December 31, 2011 and 2010, the Board had an EFC Revenue Note outstanding in the amount of $5,416,047 and $2,590,095, respectively, from the New York State Environmental Facilities Corporation. This facility is in connection with the North Gorge Project will be paid or refinanced at its maturity in 2012.

Postemployment Benefits - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2011 and 2010, the liability recorded for these benefits amounted to $8,917,841 and $6,365,150, respectively. The underfunded actuarial accrued liability is $49,882,610 and $36,401,220 at December 31, 2011 and 2010, respectively.

Compensated Absences - Upon separation, Board employees are entitled to payment of unused sick and vacation time. The total liability relating to these payments at December 31, 2011 is $941,654, compared to $999,641 at December 31, 2010. The timing of the payments relating to compensated absences is dependent upon many factors, including the retirement or separation from service, and is therefore difficult to predict; however, the Board estimates that $47,083 of such liability is current at December 31, 2011.

Economic Factors and Next Year's Rates

As noted earlier, the Board's largest sources of operating revenues are water and sewer rents from customers. These revenues result from rates charged based on water usage by the individual customer. Rates can be adjusted accordingly in order to help meet the expenses of the Board. When considering rate changes, the Board utilizes the services of a rate consultant to help forecast the magnitude and effects of potential changes. As required by law, the general public's opinions are also taken into consideration, through public hearings, when contemplating a change in rates charged for services. Water rates charged for 2011 and approved rates to be charged for 2012 are as follows:

	2011 Amount to be charged (per 100 cubic feet)		2012 Amount to be charged (per 100 cubic feet)	
Amount Consumed	Inside city	Outside city	Inside city	Outside city
First 20,000 cubic feet per quarter	2.85	7.62	2.88	7.70
Next 60,000 cubic feet per quarter	2.47	6.65	2.49	6.72
Next 120,000 cubic feet per quarter	2.09	5.54	2.11	5.60
Over 200,000 cubic feet per quarter	1.73	4.66	1.75	4.71
Minimum charge for water consumption per quarter	37.00	99.06	37.44	100.10

In addition to the above schedule of rates for water consumed, a demand charge is assessed for each user's meter, as set forth below:

Size and Type	2011 Rate (per quarter)	2012 Rate (per quarter)
Under 1" Disc	$ 2.86	3.70
1" Disc	7.13	25.00
2" Disc	10.27	40.00
2" Compound	17.13	40.00
3" Compound	32.81	50.00
4" Compound	48.51	100.00
6" Compound	80.18	220.00
8" Compound	95.88	250.00
10" Compound	111.57	275.00
12" Compound	128.69	400.00

In addition to charging for water consumption and services, the Board also charges users with respect to sewer and wastewater services provided. All users have been divided into two "user classes" - Commercial/Small Industrial/Residential Users (CSIRU) and Significant Industrial Users (SIU).

Sewer rates for the CSIRU class are determined by the total metered water consumption in each quarter. Rates charged for 2011 and rates to be charged during 2012 are as follows:

Amount Consumed	2011	2012
Minimum charge per quarter (up to 1,300 cubic feet)	$ 46.50	46.91
Additional usage in excess of 1,300 cubic feet ($/cubic feet)	3.79	3.83

Sewer rates for the SIU class are determined each quarter based on the actual measured quantities and composition of wastewater flow. Such rates are determined by the Board and are based upon five representative 24-hour composite samples taken quarterly. Rates for the SIU class for the year ended December 31, 2011 were $2,678.83 per million gallons for wastewater flow; $0.89 per pound for all suspended solids discharged; and $1.53 per pound for all soluble organic carbon compounds discharged. Approved rates for 2012 are the same as the 2011 rates. In addition, SIU's are charged fees, as needed, for certain other "substances of concern" which are discharged in their wastewater.

Contacting the Board's Financial Management

This financial report is designed to provide taxpayers, customers, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Mary Jean Buddenhagen, Michael O'Laughlin Municipal Water Plan, 5815 Buffalo Avenue, Niagara Falls, New York 14304.

NIAGARA FALLS WATER BOARD
Statements of Net Assets
December 31, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and equivalents	$ 16,039,166	15,831,144
Accounts receivable, net of allowance for uncollectible accounts	7,993,180	7,978,168
Due from other governments	216,577	320,015
Prepaid expenses	460,544	364,286
Notes receivable - current portion	1,978,359	2,073,094
Total current assets	26,687,826	26,566,707
Noncurrent assets:		
Restricted cash and investments - capital projects	18,340,664	19,176,407
Restricted cash and investments - debt service reserve	13,236,377	15,688,921
Notes receivable - noncurrent portion	1,441,584	3,419,942
Debt issuance costs, net of accumulated amortization	3,469,579	3,745,564
Capital assets:		
Land	463,713	463,713
Plant and transmission assets	145,307,815	131,913,498
Machinery and equipment	3,089,574	2,819,988
Construction in progress	7,528,960	13,345,752
Less accumulated depreciation	(33,892,502)	(29,163,496)
Total capital assets, net of accumulated depreciation	122,497,560	119,379,455
Total noncurrent assets	158,985,764	161,410,289
Total assets	$ 185,673,590	187,976,996

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Net Assets, Continued

Liabilities	2011	2010
Current liabilities:		
Accounts payable	$ 2,669,723	3,688,355
Accrued liabilities	3,070,970	3,269,493
Contract retainage payable	237,963	514,493
Overpayments	14,083	30,583
Current portion of long-term liabilities:		
Compensated absences	47,083	49,982
Postemployment benefits	1,370,000	986,087
Revenue note payable	5,416,047	-
Bonds payable	2,660,000	2,660,000
Total current liabilities	15,485,869	11,198,993
Noncurrent liabilities:		
Compensated absences	894,571	949,659
Postemployment benefits	7,547,841	5,379,063
Revenue note payable	-	2,590,095
Bonds payable	99,457,727	102,184,665
Total noncurrent liabilities	107,900,139	111,103,482
Total liabilities	123,386,008	122,302,475
Net Assets		
Invested in capital assets, net of related debt	14,963,786	11,944,695
Restricted for capital projects	18,340,664	19,176,407
Restricted for debt service	13,236,377	15,688,921
Unrestricted	15,746,755	18,864,498
Total net assets	62,287,582	65,674,521
Risk management and contingent liabilities (note 14)		
Total liabilities and net assets	$ 185,673,590	187,976,996

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Revenue, Expenses and Changes in Net Assets
Years ended December 31, 2011 and 2010

	2011	2010
Operating revenue:		
Water rents and charges	$ 8,599,911	8,892,581
Sewer rents and charges	14,374,294	13,400,841
Licenses and permits	220,089	188,512
Other services	301,908	72,168
Total operating revenue	23,496,202	22,554,102
Operating expenses:		
Personnel costs	4,588,511	4,690,329
Contractual expenses	6,992,507	7,494,024
Employee benefits	6,632,025	5,747,147
Depreciation expense	4,729,006	4,524,976
Total operating expenses	22,942,049	22,456,476
Operating income	554,153	97,626
Nonoperating revenue (expenses):		
Use of money and property	679,094	669,080
Gain on sale of property	16,500	58,406
Capital grant revenue	-	5,470,953
Settlement expense	-	(500,000)
Interest expense	(4,360,701)	(4,380,725)
Amortization of debt issuance costs	(275,985)	(275,985)
Total nonoperating revenue (expenses)	(3,941,092)	1,041,729
Change in net assets	(3,386,939)	1,139,355
Net assets at beginning of year	65,674,521	64,535,166
Net assets at end of year	$ 62,287,582	65,674,521

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Cash Flows
Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from customers and users	$ 25,641,222	24,697,790
Payments to suppliers	(7,594,903)	(7,487,366)
Payments to employees	(8,952,026)	(8,083,877)
Net cash provided by operating activities	9,094,293	9,126,547
Cash flows from capital and related financing activities:		
Proceeds from capital grant	-	5,470,953
Acquisition of capital assets	(8,638,229)	(11,933,146)
Proceeds from sales of capital assets	18,594	60,500
Proceeds from revenue note payable	2,825,952	2,590,095
Principal paid on capital debt	(2,660,000)	(2,590,000)
Interest paid on capital debt	(4,399,969)	(4,474,333)
Net cash used in capital and related financing activities	(12,853,652)	(10,875,931)
Cash flows from investing activities:		
Interest earned	679,094	669,080
Change in restricted cash and investments - capital projects	835,743	585,213
Change in restricted cash and investments - debt service reserve	2,452,544	813,975
Net cash provided by investing activities	3,967,381	2,068,268
Net change in cash and equivalents	208,022	318,884
Cash and equivalents at beginning of year	15,831,144	15,512,260
Cash and equivalents at end of year	$ 16,039,166	15,831,144

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Cash Flows, Continued

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 554,153	97,626
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,729,006	4,524,976
Changes in:		
Accounts receivable	(15,012)	(364,498)
Due from other governments	103,438	331,251
Prepaid expenses	(96,258)	(66,235)
Notes receivable	2,073,094	2,167,985
Accounts payable	(506,138)	72,893
Accrued liabilities	(226,194)	658,777
Payroll withholdings	-	(32,015)
Overpayments	(16,500)	8,950
Compensated absences	(57,987)	(362,431)
Postemployment benefits	2,552,691	2,089,268
Total adjustments	8,540,140	9,028,921
Net cash provided by operating activities	$ 9,094,293	9,126,547
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	$ (512,494)	(739,652)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The financial statements of the Niagara Falls Water Board (the Board) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Included in the Board's reporting entity is a blended component unit, the Niagara Falls Public Water Authority (the Authority).

(a) Reporting Entity

The Board was created by Chapter 325 of the Laws of 2002 of the State of New York (the State), codified as Sections 1231-a of Title 10-C of Article 5 of the Public Authorities Law of the State, as amended (the Board Act). The Authority was created by Chapter 275 of the Laws of 2002 of the State, constituting the Niagara Falls Public Water Authority Act, codified as Sections 1230-a through 1230-aa of Title 10-B of Article 5 of the Public Authorities Law of the State, as amended (the Authority Act).

The Board is a corporate municipal instrument of the State consisting of five members primarily responsible for the jurisdiction, control, possession, supervision and use of water, wastewater and storm water systems within the City of Niagara Falls, New York (the City).

The Authority is a public benefit corporation consisting of three members and is primarily responsible for obtaining financing for water, wastewater and storm water systems within the City.

Board members for both the Board and Authority are appointed pursuant to the enabling legislation.

Pursuant to the Board Act and the Authority Act, the Board, the Authority and the City executed an acquisition agreement effective September 25, 2003 whereby the Authority issued bonds enabling the Board to purchase all of the assets, net of liabilities, of the City's public water, wastewater and storm water systems. The Board began operations of these systems on that date.

Currently there are approximately 18,400 residential, 300 commercial and 27 large industrial type customers. Total population served by the water system is estimated at 51,000. The average daily demand is 18 million gallons per day. The Board's wastewater system generally covers the same service area and customer base as the water system. The wastewater treatment plant processes approximately 36 million gallons of wastewater per day.

Blended Presentation of Component Unit - Although they are legally separate entities, blended component units are, in substance, part of the government's operations. The following is a brief description of the blended component unit included in the primary government.

(1) Summary of Significant Accounting Policies, Continued

(a) Reporting Entity, Continued

Niagara Falls Public Water Authority - Among the powers given to the Authority is the ability to borrow money and issue negotiable or non-negotiable notes, bonds or other obligations for the acquisition, renovation and improvement to the regional water system.

The Authority may also apply for licenses, permits and approval of plans associated with the acquisition, renovation and improvement of the regional water system. In the process of borrowing funds to improve facilities, professional consultants may be retained to offer technical services and advice for the purpose and benefit of acquiring or improving the systems.

The Authority has entered into an agreement with the Board to make payments for the debt service required by these bonds. The Board is also required to make payments for Authority expenses. The obligation to make debt service is a general obligation to which its full faith and credit are pledged.

In consideration for operating the systems and the financing of capital projects from time to time, the Board leases all of its rights, title and interest in the systems and capital projects to the Authority under terms and conditions of the original financing agreement. In turn, the Authority appoints the Board as the exclusive operator of the systems.

The Authority is considered a component unit since the Board is obligated to pay debt service and fund other accounts of the Authority. Thus, the Authority is "fiscally dependent" upon the Board to establish rates and collect fees necessary to pay these debts. Further, the Authority is "blended" with the Board in the combined financial statements because the Authority exists solely to provide services that predominantly benefit the Board.

(b) Measurement of Focus and Basis of Accounting

The financial statements of the Board have been prepared in conformity with GAAP as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. In accordance with the provisions of GASB Statement No. 20, - "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Board has elected not to apply all Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

The activities of the Board are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

(1) Summary of Significant Accounting Policies, Continued

(b) Measurement of Focus and Basis of Accounting, Continued

Revenues from providing water and sanitary sewer services are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating systems are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

(c) Budgets

The annual budget is the financial plan for the effective operation of the Board and the Authority. The Board uses the budget as a management tool for internal control purposes and to assist in setting of appropriate user charges.

(d) Assets, Liabilities and Net Assets

- Cash and Equivalents - The Board's cash and equivalents represent cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

- Restricted Cash and Investments - Capital Projects - In 2007, the Board received $19,000,000 from the New York State Power Authority (the Power Authority) which is restricted for capital improvement projects including, but not limited to, the Falls Street Tunnel. At December 31, 2011 and 2010, the total amount restricted for capital projects amounted to $18,340,664 and $19,176,407, respectively.

- Restricted Cash and Investments - Debt Service Reserve - As a result of the purchase of the water and sewer systems from the City, certain bond covenants, as disclosed in note 8, were established requiring resources (consisting of cash and investments) to be maintained for specific purposes necessary to operate the water and sewer systems.

  Cash has been deposited into various trust funds with a fiscal agent to satisfy certain covenants. Further, the amounts have been invested into various short-term investments in compliance with the Board's investment policy. Certain funds were used for their intended purposes and are no longer available for investment.

  The sinking fund and the debt service reserve fund were established to fulfill the debt service reserve requirements on the outstanding bonds as and when they become due.

- Accounts Receivable - All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Board has adopted a policy of recognizing water and sewer revenues in the period in which the services are provided. Billings to customers generally consist of revenues earned from the prior three months for quarterly billed customers, and revenues earned from the prior month for monthly-billed customers.

  The collection of current water and sewer charges is performed by the Board. The City, acting as collecting agent for the Board, collects delinquent water and sewer charges.

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Assets, Continued

- Prepaid Expenses - Prepaid expenses, including bond issuance costs, reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

- Capital Assets - Capital assets acquired by the Board as part of the September 25, 2003 acquisition agreement with the City were reported at fair value on the acquisition date. Capital assets acquired by the Board subsequent to the initial acquisition are stated at cost including interest capitalized during construction, where applicable. Costs include material, direct labor and other items such as supervision, payroll taxes, employee benefits, transportation, and certain preliminary legal, engineering and survey costs. The costs of repairs and maintenance are expensed as incurred. Contributed fixed assets are recorded at fair market value at the date received.

  Construction projects are conducted on a continuing basis in order to maintain or enhance the systems. Preliminary legal, engineering and survey costs include studies conducted prior to the actual construction period that directly result in specific construction projects. While capital projects are in process, all associated costs are recorded as construction-in-progress. Once completed, all costs, including legal, engineering, survey and construction costs, are reclassified to their respective asset categories and depreciated according to their useful lives.

  Depreciation has been recorded using the straight-line method of depreciation. The estimated useful lives of the Board's major classes of depreciable assets are based on the utility of the respective assets. The estimated useful lives of depreciable fixed assets are as follows:

Assets	Years
Land	N/A
Plant and transmission assets	25 - 50
Machinery and equipment	5 - 20

- Compensated Absences - Board employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, all union employees are entitled to payment for accumulated vacation and compensatory time limited to amounts defined under their respective collectively bargained agreements. All non-union employees are entitled to similar benefits as defined by their respective contracts with the Board.

  Payments of vacation and sick leave and compensatory time are dependent upon many factors; therefore, the timing of future payments is not readily determinable. However, management believes that sufficient resources will be available for the payments of vacation leave and compensatory time when such payments become due.

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Assets, Continued

- Long-term Obligations - Long-term debt is reported as a liability in the accompanying statements of net assets. Bond premiums are deferred and amortized over the life of the respective bonds.
- Retirement Plan - The Board provides retirement benefits for substantially all of its regular, full-time employees through contributions to the New York State Employees' Retirement System (ERS). The ERS provides various plans and options, some of which require employee contributions.

(e) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Subsequent Events

The Board has evaluated events after December 31, 2011, and through March 24, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(2) Cash and Equivalents and Investments

The Board's investment policies are governed by State statute. Board monies must be deposited in Federal Deposit Insurance Corporation (FDIC)-insured commercial banks or trust companies located within the State. The Board is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are outlined in chapter 623 of the laws of the State.

The Board's cash and equivalents at December 31, 2011 and 2010 include the following captions on the statements of net assets:

	2011	2010
Cash and equivalents	$ 16,039,166	15,831,144
Restricted cash and investments:		
Capital projects	18,340,664	19,176,407
Debt service	13,236,377	15,688,921
Total	$ 47,616,207	50,696,472

(2) Cash and Equivalents and Investments, Continued

Cash and equivalents are comprised of the following:

	2011	2010
Petty cash (uncollateralized)	$ 100	100
Deposits	36,771,197	39,945,559
Investments	10,843,910	10,750,813
Total	$ 47,616,207	50,696,472

All deposits and investments are carried at fair value. Investments at December 31, 2011 and 2010 are in the form of U.S. Treasury securities, notes issued by the Federal National Mortgage Association and Federal Home Loan Bank and investment type money market funds.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that, in the event of a bank failure, the Board's deposits may not be returned to it. As noted above, by State statute, all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2011 and 2010, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name.

Custodial Credit Risk - Investments - For investments, this is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. At December 31, 2011 and 2010, all of the Board's restricted cash in the form of investments was registered in the Board's name and was invested in U.S. Government backed securities.

(3) Receivables

Major revenues accrued by the Board at December 31, 2011 and 2010 include the following:

(a) Accounts Receivable

Accounts receivable primarily represents amounts due from customers for current and delinquent water and wastewater services provided, including penalties, unpaid bill charges, collection fees and shut-off charges.

Customers are billed either on a monthly or quarterly basis depending on the type of user (industrial or residential), and the level of water and sewer usage. Customers may make payments without penalty on current charges up until 30 days after receiving their next bill. Any unpaid balances remaining after these 30 days are subject to a penalty of 6%, and those customers receive an unpaid bill notice. If balances still remain unpaid after 30 additional days, final unpaid notices are mailed. The customers are then given 10 days to remit payment, after which the property is tagged, and shut-off procedures begin.

During the first week of December of every year, unpaid balances are transferred to the City tax roll for collections through the subsequent year's tax levy or in-rem property sales. Any amounts relating to unpaid water and wastewater balances collected by the City through these means are delivered to the Board.

(3) Receivables, Continued

(b) Due from Other Governments

Due from other governments represents amounts due primarily from the City. Amounts accrued at December 31, 2011 and 2010 consist of:

	2011	2010
City of Niagara Falls:		
Tax transfer	$ 216,577	110,497
Cascades note receivable	-	209,518
Total	$ 216,577	320,015

The tax transfer represents uncollected water and sewer charges that have been turned over to the City for collection in conjunction with the City's property tax levy. The City remits these charges to the Board each January and July for collections it receives for the previous six-month period. This amount includes collected but not yet remitted charges at year-end. Charges from all previous years' water and sewer operations transferred to the City that are not collected totaled $3,752,982 and $3,425,400 at December 31, 2011 and 2010, respectively. Management has recorded a full allowance for uncollectible accounts with respect to these balances at December 31, 2011 and 2010.

Cascades note receivable represents the Board's share of the Cascades Company note receivable (note 4(a)) received by the City but not yet remitted to the Board as of December 31, 2010.

(4) Notes Receivable

(a) Cascades Company

During 1987, Nitec Paper Corporation filed for bankruptcy with several years of outstanding taxes, water and sewer charges due to the City, the County of Niagara (the County), and the Niagara Falls Board of Education (the Board of Education). The City obtained the deed in lieu of foreclosure and sold the plant to Cascades Company for outstanding taxes and charges totaling $5,400,000. Upon closing, $100,000 was paid to the City with the remaining $5,300,000 to be paid over 30 years as follows: Commencing November 1, 1988 through October 1, 1997, monthly payments of interest only at 3%; beginning on November 1, 1997 through October 1, 2017, monthly payments of interest and principal of $29,394. The Board receives 59.4% of these monthly payments, with the remaining 40.6% split between the City (16.2%), the County (6.8%), and the Board of Education (17.6%).

(b) Occidental Chemical Corporation

On September 10, 1990, the City entered into an agreement with the Occidental Chemical Corporation (the Corporation) in which the Corporation agreed to make certain specified payments to the City to help with the payment and implementation of a new City drinking water treatment plant. The agreement stipulates a total of $64,900,000 to be paid over 19 years commencing on December 30, 1994, with final payment scheduled in 2013. The remaining balance due under this agreement transferred to the Board on September 25, 2003.

(4) Notes Receivable, Continued

(b) Occidental Chemical Corporation, Continued

Notes receivable at December 31, 2011 and 2010 are detailed as follows:

	2011	2010
Cascades Company	$ 1,119,943	1,293,036
Occidental Chemical Corporation	2,300,000	4,200,000
	3,419,943	5,493,036
Less current portion	(1,978,359)	(2,073,094)
Notes receivable - noncurrent portion	$ 1,441,584	3,419,942

(5) Debt Issuance Costs

Bond issuance costs are capitalized and amortized over the term of the respective bonds using the straight-line method. Bond issuance costs (net of premium and discounts) related to the Board's issuance of debt in 2003 and 2005 amount to $4,224,531 and $1,399,869, respectively. These costs are amortized over the term of the bonds issued. Amortization of debt issuance costs amounted to $275,985 for the years ended December 31, 2011 and 2010. Debt issuance costs, net of amortization, amounted to $3,469,579 and $3,745,564 at December 31, 2011 and 2010, respectively.

(6) Capital Assets

The Board's capital assets activity for the years ended December 31, 2011 and 2010 is summarized as follows:

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	$ 463,713	-	-	463,713
Construction in progress	13,345,752	7,830,611	(13,647,403)	7,528,960
Total capital assets not being depreciated	13,809,465	7,830,611	(13,647,403)	7,992,673
Capital assets, being depreciated:				
Infrastructure:				
Water system	85,080,670	406,955	-	85,487,625
Wastewater system	46,832,828	12,987,362	-	59,820,190
Machinery and equipment	2,819,988	269,586	-	3,089,574
Total capital assets being depreciated	134,733,486	13,663,903	-	148,397,389

(6) Capital Assets, Continued

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011
Less accumulated depreciation:				
Infrastructure:				
Water system	$ (19,639,075)	(2,918,165)	-	(22,557,240)
Wastewater system	(7,955,479)	(1,525,769)	-	(9,481,248)
Machinery and equipment	(1,568,942)	(285,072)	-	(1,854,014)
Total accumulated depreciation	(29,163,496)	(4,729,006)	-	(33,892,502)
Total being depreciated, net	105,569,990	8,934,897	-	114,504,887
Capital assets, net	$ 119,379,455	16,765,508	(13,647,403)	122,497,560

	Balance 1/1/2010	Increases	Decreases	Balance 12/31/2010
Capital assets, not being depreciated:				
Land	$ 463,713	-	-	463,713
Construction in progress	7,983,471	11,563,544	(6,201,263)	13,345,752
Total capital assets not being depreciated	8,447,184	11,563,544	(6,201,263)	13,809,465
Capital assets, being depreciated:				
Infrastructure:				
Water system	84,991,120	89,550	-	85,080,670
Wastewater system	40,923,273	5,909,555	-	46,832,828
Machinery and equipment	2,634,504	192,705	(7,221)	2,819,988
Total capital assets being depreciated	128,548,897	6,191,810	(7,221)	134,733,486
Less accumulated depreciation:				
Infrastructure:				
Water system	(16,745,965)	(2,893,110)	-	(19,639,075)
Wastewater system	(6,586,433)	(1,369,046)	-	(7,955,479)
Machinery and equipment	(1,311,249)	(262,820)	5,127	(1,568,942)
Total accumulated depreciatior	(24,643,647)	(4,524,976)	5,127	(29,163,496)
Total being depreciated, net	103,905,250	1,666,834	(2,094)	105,569,990
Capital assets, net	$ 112,352,434	13,230,378	(6,203,357)	119,379,455

(7) Environmental Facilities Corporation Revenue Note

During the year ended December 31, 2010, the Board commenced its North Gorge Interceptor Capacity Restoration Project (the Project), which was an $11 million initiative to repair a large wastewater tunnel originally constructed in 1937. The Project was funded by the New York State Environmental Facilities Corporation (EFC) through the Clean Water State Revolving Funds. In connection with the Project, the Board obtained an $11 million EFC Revenue Note, of which $5,470,953 was eligible for principal forgiveness under the American Recovery and Reinvestment Act of 2009 (ARRA).

As of December 31, 2011, the Board incurred total principal draws of $11,000,000 under the Revenue Note for Project expenditures, of which $5,470,953 was considered forgiven during 2010 under the ARRA portion of the funding package. The remaining balance of $5,416,047 and $2,590,095 at December 2011 and 2010, respectively, is non-interest bearing and matures on August 6, 2012. Management expects to obtain permanent financing related to this note in 2012.

Under the terms of the Revenue Note, if the Board does not pay off or obtain permanent financing by the maturity date, the amount of principal forgiveness will be required to be repaid to EFC.

(8) Bond Indebtedness

The Authority issued debt to provide for the acquisition of the water and sewer systems and for the initial funding of operating and maintenance and debt reserves. During the years ended December 31, 2011 and 2010, the Authority issued no bonds.

The proceeds of the Series 2005A - Clean Water issue were used to obtain the North Gorge Interceptor capital project from the City and to fund further capital improvements.

The net proceeds of the Series 2005 issue were used to eliminate outstanding short-term debt, fund current and future capital improvements, and to refund a portion of outstanding debt in the amount of $16,020,000. Such amount was deposited in an irrevocable trust to provide for future debt service payments on the Series 2003A bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements.

The effect of the refunding transaction was a decrease in debt service payments of $1,603,619 and an economic gain of $1,124,676. The economic gain is the difference in present values of the old and new debt service payments.

The premium on the Series 2005 bonds amounted to $1,495,985, and has been deferred and is being amortized over the life of the bonds. The premium is included in the bonds payable balance in the Board's statements of net assets.

Serial bond activity for the year ended December 31, 2011 is presented on the following page:

(8) Bond Indebtedness, Continued

Serial Bond Activity:

	Year of Issue	Year of Maturity	Interest Rate %	Original Amount	Principal Outstanding 1/1/2011	Issued	Paid	Principal Outstanding 12/31/2011
Niagara Falls Public Water Authority Bonds:								
Series 2003A Bonds	2003	2034	5.50	$ 41,530,000	25,510,000	-	-	25,510,000
Series 2003B Bonds	2003	2024	1.85 - 5.50	12,155,000	9,980,000	-	525,000	9,455,000
Series 2005 Bonds	2005	2034	5.00 - 5.50	23,115,000	23,115,000	-	-	23,115,000
New York State Environmental Facilities Corporation Water Revolving Funds Revenue Bonds:								
Series 2003A - Clean Water	2003	2033	1.61 - 5.05	18,943,807	15,530,000	-	490,000	15,040,000
Series 2003B - Drinking Water	2003	2023	1.64 - 4.91	5,582,990	5,580,000	-	-	5,580,000
Series 2003C - Drinking Water	2003	2019	1.34 - 5.59	19,680,000	9,820,000	-	1,000,000	8,820,000
Series 2003C - Drinking Water	2003	2019	1.34 - 5.59	9,840,000	4,910,000	-	500,000	4,410,000
Series 2004 - Drinking Water	2003	2021	5.40	4,095,000	4,095,000	-	-	4,095,000
Series 2005A & B - Clean Water	2005	2034	1.56 - 4.57	6,017,960	5,135,000	-	145,000	4,990,000
Totals				$ 140,959,757	103,675,000	-	2,660,000	101,015,000

Reconciliation to statements of net assets:	1/1/2011	12/31/2011
Principal outstanding	$ 103,675,000	101,015,000
Unamortized premium on bonds	1,169,665	1,102,727
	$ 104,844,665	102,117,727
Current portion of bonds payable	2,660,000	2,660,000
Non-current portion of bonds payable	102,184,665	99,457,727
	$ 104,844,665	102,117,727

(8) Bond Indebtedness, Continued

The annual maturities of long-term debt (by debt type) as of December 31, 2011 are as follows:

Year	Premium on bonds	Serial bonds	Total
2012	$ 66,938	2,745,000	2,811,938
2013	66,938	2,835,000	2,901,938
2014	66,938	2,935,000	3,001,938
2015	66,938	3,040,000	3,106,938
2016	66,938	3,155,000	3,221,938
2017-2021	334,688	17,765,000	18,099,688
2022-2026	307,942	21,840,000	22,147,942
2027-2031	103,497	26,945,000	27,048,497
2032-2034	21,910	19,755,000	19,776,910
	$ 1,102,727	101,015,000	102,117,727

Annual interest payments due on serial bonds as of December 31, 2011 are as follows:

2012	$ 4,316,992
2013	4,226,360
2014	4,129,037
2015	4,025,264
2016	3,915,922
2017-2021	17,685,736
2022-2026	13,860,380
2027-2031	8,530,341
2032-2034	1,939,127
Total	$ 62,629,159

Financing Agreement Covenants

The financing agreement between the Authority and the Board relating to all current and future bonding contain various covenants pertaining to the use and maintenance of the trust funds established from the proceeds of each bonding. At December 31, 2011, management believes the Board was in compliance with the following loan covenants:

The Board is required to establish and collect rates, fees and charges sufficient in each fiscal year at least equal to the sum of:

(1) 115% of the estimated aggregate debt service and projected debt service payable in such fiscal year;

(2) 100% of Board operating expenses and Authority expenses payable in such fiscal year; and

(3) 100% of the amount necessary to pay the required deposits for such fiscal year.

(8) Bond Indebtedness, Continued

The Board shall review the adequacy of fees, rates and charges at least semi-annually.

The Board shall enforce the payment of any and all amounts owed for the use of the systems.

The Board shall (unless required by law) not furnish or supply, or cause to be furnished or supplied, any product, use or service of the systems, free of charge.

The debt service fund balance, beginning with the first day of each calendar month, shall receive all revenues until the balance in the debt service fund equals the minimum monthly balance. The minimum monthly balance is defined as an amount equal to the sum of the aggregate amounts of debt service that have accrued with respect to all series of bonds, calculating the debt service that has accrued as an amount equal to the sum of:

(1) The interest on the bonds that has accrued and is unpaid and that will have accrued by the end of the then calendar month; and

(2) The portion of the next due principal installment for the bonds that would have accrued (as deemed to accrue in the manner interest accrues) by the end of the then calendar month.

(9) Compensated Absences

As explained in note 1, the Board reports the value of compensated absences as a liability. The annual budgets of the operating funds provide funding for these benefits as they become payable. The payment of compensated absences is dependent on many factors; therefore, the timing of future payments is not readily determinable. The current portion payable is estimated at 5% of the total compensated absences liability. The current portion of the liability amounted to $47,083 and $49,982 at December 31, 2011 and 2010, respectively. The long-term portion of the liability amounted to $894,571 and $949,659 at December 31, 2011 and 2010, respectively.

(10) Postemployment Benefits

The Board provides postretirement benefits to eligible retirees in the form of health insurance. The obligation of the Board and its employees to contribute to the cost of providing these benefits has been established pursuant to various collective bargaining agreements and Board policy for those individuals not included in one of the bargaining units. Under such agreements, participants are not required to contribute to the health care plan. In 2008, the Board adopted the requirements of GASB Statement No. 45. In conformance with the provisions of that statement, the Board recognizes the costs of postemployment health care in the year when the employees' services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Board's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing in 2008.

(10) Postemployment Benefits, Continued

Plan Description - The Board provides continuation of medical, prescription drug, dental, vision and chiropractic coverage for employees who retire and are at least age 50 and have an age, plus years of service, of at least 70. All retirees and future retirees hired prior to June 1, 2006 have no contribution requirements for both individual and family coverage. All future retires hired after June 1, 2006 are required to pay 20% of the individual and family premiums.

The Board provides certain health care benefits for retired employees. Substantially all of the employees may become eligible for these benefits if they reach the normal retirement age and have the required minimum age plus years of service working for the Board. The Board, on an annual basis, accrues the cost that represents the present value of these benefits to be paid over the estimated lives of the retirees. The annual other postemployment benefit cost (OPEB) charged to operations for the years ended December 31, 2011 and 2010 amounted to $3,908,098 and $2,967,769, respectively. At December 31, 2011 and 2010, the current portion of the postemployment benefits liability was $1,370,000 and $986,087, respectively. The non-current portion of the postemployment benefits liability amounted to $7,547,841 and $5,379,063 at December 31, 2011 and 2010, respectively.

The number of participants as of January 1, 2011 and 2010 was as follows:

	2011	2010
Active employees	86	89
Retired employees	68	63
Total	154	152

Funding Policy - The Board currently pays for postemployment health care benefits on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue.

(10) Postemployment Benefits, Continued

Benefit Obligations and Normal Costs	2011	2010
Actuarial accrued liability (AAL):		
Retired employees and dependents	$ 27,665,829	9,177,832
Active employees	22,216,781	27,223,388
Total	$ 49,882,610	36,401,220
Underfunded actuarial accrued liability (UAAL)	$ 49,882,610	36,401,220
Normal costs at beginning of year	873,673	751,894
Interest on normal cost	36,403	31,329
	$ 910,076	783,223
Level Dollar Amortization		
Calculation of ARC under projected Unit Credit Method:		
Amortization of UAAL over 30 years with interest to end of year	2,740,828	2,011,773
Interest on amortization payment	257,194	172,773
Normal costs with interest to end of year	910,076	783,223
Annual required contribution (ARC)	$ 3,908,098	2,967,769
Annual OPEB Cost Contribution		
Contributions made for years ended December 31, 2011 and 2010	1,355,407	878,501
Contributions as a percentage of required contribution	34.7%	29.6%
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution (OPEB cost)	3,908,098	2,967,769
Contributions made on a pay-as-you-go basis	(1,355,407)	(878,501)
Increase in net OPEB obligation	2,552,691	2,089,268
Net OPEB obligation at beginning of year	6,365,150	4,275,882
Net OPEB obligation at end of year	$ 8,917,841	6,365,150
Actuarial methods and assumptions:		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Discount rate	4%	4%
2011 trend rate (Medical)	10.50%	10.50%
2012 trend rate (Medical)	0.50%	0.50%
Yearly decrease after year 2	9.00%	9.00%
Years until ultimate rate	10 years	11 years
The remaining amortization period at December 31, 2011 and 2010	26 years	27 years

(11) Pension Plan

Plan Description - The Board participates in the New York State Employees' Retirement System and the Public Employees' Group Life Insurance Plan (collectively, the Retirement Systems). These are cost sharing multiple employer retirement systems. The Retirement Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement Systems and for custody and control of their funds. The Retirement Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12234.

Funding Policy - The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who joint on or after January 1, 2010 who generally contribute 3% of their salary for the entire length of service.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The rates billed by the Comptroller for ERS during the year ended December 31, 2011 ranged from 12.7% to 21.5% and during the year ended December 31, 2010 ranged from 11.3% to 15.3%. The required contributions for the current year and two preceding years were:

Year	Contribution
2011	$ 653,821
2010	508,156
2009	345,817

The Board's contributions made to the Retirement Systems were equal to 100 percent of the contributions required for each year.

(12) Net Assets, Reserves and Designations

The Board's financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted for debt service, restricted for capital projects and unrestricted.

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

(12) Net Assets, Reserves and Designations, Continued

The Board's investment in capital assets, net of related debt is in a surplus position of $14,963,786 and $11,944,695 at December 31, 2011 and 2010, respectively. The increasing surplus results from the amortization of the Board's capital debt, as outstanding principal for the majority of Board's serial bonds is not paid until late into the life of the debt while depreciation occurs ratably over the life of the assets.

Restricted Net Assets - This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Board restrictions at December 31, 2011 and 2010 of $13,236,377 and $15,688,921, respectively, are for debt service. Amounts restricted for capital projects, as required by the Power Authority, are $18,340,664 and $19,176,407 at December 31, 2011 and 2010, respectively.

Unrestricted Net Assets - This category represents net assets of the Board not restricted for any project or other purpose.

(13) Labor Relations

The majority of the Board's employees are represented by four bargaining units, with the balance governed by Board policies. Contracts for all of the bargaining units covered a six-year term which expired on December 31, 2010. The Board is currently in negotiations with the bargaining units regarding new contracts.

(14) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 2011 are detailed as follows:

(a) Insurance

The Board is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; injuries to employees; and natural disasters, for which the Board carries commercial insurance. On March 17, 2011, the Board approved a settlement in the amount of $635,000 for an accident claim incurred in 2010. The Board is responsible for its $500,000 deductible related to this claim with insurance covering any amounts in excess of this amount. Accordingly, an accrual of $500,000 was recorded at December 31, 2010. As of December 31, 2011, $250,000 remains payable over the next two years.

There were no other settlements that significantly exceeded insurance coverage for the year ended December 31, 2011.

(b) Litigation

The Board is involved in litigation arising in the ordinary course of its operations. The Board believes that its ultimate liability, if any, in connection with these matters will not have a material effect on its financial condition or results of operations.

(15) Extraordinary Items

On November 29, 2007, the Board received $19,000,000 from the Power Authority under a "Relicensing Settlement Agreement." The Agreement provided for the creation of a "Niagara Falls Water Board Capital Improvement Fund." These funds are restricted for future use related to capital improvements of the Board including but not limited to any specific project including the Falls Street Tunnel project.

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

300 ESSJAY ROAD, STE 115
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Niagara Falls Public Water Board:

We have audited the financial statements of the Niagara Falls Water Board (the Board) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

EMAIL: toski@toskicpa.com
WEBSITE: www.toskicpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement we performed tests of its compliance with certain provisions of laws regulations contracts, and grants, including investment Guidelines for Public Authorities and the Board's Investment Guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain additional matters that we have reported to the management of the Board in a separate letter dated March 24, 2012.

Niagara Falls Water Board's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 24, 2012

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

300 ESSJAY ROAD, STE 115
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Niagara Falls Water Board

Compliance

We have audited the Niagara Falls Water Board's (the Board) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the Board's major federal program for the year ended December 31, 2011. The Board's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

EMAIL: toski@toskicpa.com
WEBSITE: www.toskicpa.com

Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 24, 2012

NIAGARA FALLS WATER BOARD
Schedule of Expenditures of Federal Awards
Year ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Agency Pass-Through Number	Federal Expenditures
Environmental Protection Agency			
Passed through the New York State Environmental Facilities Corporation:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	C9-6603-02-71	$ 1,711,289

See accompanying notes to schedule of expenditures of federal awards.

(1) Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Niagara Falls Water Board (the Board) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

(2) Pass-Through Programs

Where the Board receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) numbers advised by the pass-through grantor.

Identifying numbers, other than CFDA numbers, may be assigned by pass-through grantors are included in the schedule of expenditures of federal awards.

(3) Indirect Costs

No indirect costs are included in the reported expenditures.

(4) Subrecipients

The Board did not provide any funding to subrecipients during the year ended December 31, 2011.

NIAGARA FALLS WATER BOARD

Schedule of Findings and Questioned Costs

Year ended December 31, 2011

Part I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
1) Material weakness(es) identified?	____Yes __x__ No
2) Significant deficiency(ies) identified not considered to be material weakness(es)?	__x__ Yes ____ None reported
3) Noncompliance material to financial statements noted?	____Yes __x__ No

Federal Awards:

Internal control over major programs:	
4) Material weakness(es) identified?	____Yes __x__ No
5) Significant deficiency(ies) identified not considered to be material weakness(es)?	____Yes __x__ None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
6) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section 5.10(a))	____Yes __x__ No
7) The major program was as follows:	
Name of Federal Program	CFDA Number
Capitalization Grants for Clean Water State Revolving Funds	66.458
8) Dollar threshold used to distinguish between Type A and Type B programs?	$300,000
9) Auditee qualified as low-risk auditee?	__x__ Yes ____ No

Part II - FINANCIAL STATEMENT FINDINGS

See page 40.

Part III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted

(2011-1) Financial Statements

Condition - The financial statements of the Board at December 31, 2011 required significant adjusting journal entries in order to properly reflect them in accordance with accounting principles generally accepted in the United States of America.

Criteria - Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting and for properly presenting financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect - Several adjusting journal entries, with a gross value of approximately $29 million, were recorded to correct misstatements in the financial statements as of December 31, 2011. The adjustments were primarily related to reclassifications between capital asset accounts and did not have a significant effect on the change in net assets for 2011.

Cause - The misstatements resulted primarily from a deficiency in internal control over financial reporting and as a result of capital assets being reconciled on an annual, as opposed to monthly, basis.

Recommendation - The Board should formalize its accounting procedures and ensure that all accounts are properly reconciled to subsidiary schedules and approved on a monthly basis.

Management's Reply - Management is taking more of an active role supervising and reviewing the accounting records of the Board on a monthly basis.

NIAGARA FALLS WATER BOARD

Status of Prior Audit finding

Year ended December 31, 2011

There were no audit findings with regard to the prior year financial statements (December 31, 2010).