

CATSKILL WATERSHED CORPORATION

MANAGEMENT LETTER

DECEMBER 31, 2012



Sickler, Torchia
Allen & Churchill, CPA's, PC
Your Partner When It Counts

Robert J. Allen, CPA
Lindley H. Churchill, CPA
Victor V. Churchill, CPA
Craig R. Sickler, CPA
Michael A. Torchia, Jr., CPA, CVA

Edward J. Gower II, CPA

March 1, 2013

To the Board of Directors
Catskill Watershed Corporation
Margaretville, New York

In planning and performing our audit of the financial statements of Catskill Watershed Corporation for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

The memorandum that accompanies this letter summarizes any comments and suggestions. We have separately reported on the Organization's internal control in our report dated March 1, 2013. This letter does not affect our report dated March 1, 2013, on the financial statements of Catskill Watershed Corporation.

We will review the status of this comment during our next audit engagement. We have already discussed any comments and suggestions contained herein with various Organization personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendations.

Sickler, Torchia, Allen & Churchill, CPA's, P.C.
Hudson, New York

MEMORANDUM

PRIOR YEAR MEMORANDUM ITEMS

Information Technology Security:

In consideration of the added confidential electronic records maintained by the organization related to servicing the loan portfolio with in the Catskill Fund for the Future Program, it would be prudent to consider an overall information technology (IT) review. The purpose would be to insure the maintenance of confidentiality and security of each of the organizations information technology systems.

Status as of December 31, 2012:

Due to turnover in staffing involved, the entity has taken the opportunity to change the administrative team responsible for its IT. The key IT staff member is now part of the IT team with two administrative staff members. We will continue to monitor this in future audits, however this structure change is an improvement to the safeguards and **we consider this matter resolved.**

Investment Policy:

During our audit we noted that the organization's current policies provide for the Executive Director and the Finance Director to consult with the "CWC Investment Committee in connection with their investment of all CWC assets".

In practice it appears that the Investment Committee relies on the Finance Director to initiate investments (sales and purchases) with the appointed Broker with the authorization of the Executive Director. Then monthly, the transactions are reviewed and approved by the Investment Committee.

We suggest consideration be given to accelerating notification of transactions to the committee by virtue of an electronic notification from the Broker of each transaction directly to the Executive Director, the Committee Chair and the Board Chair within a required timeframe. This would be an enhancement to the current controls in place and could be accomplished with minimal additional manual effort. This would minimize the length of time between the initiation of an investment transaction and Board notification and enhance compliance with the consultation with the committee for investments.

Status as of December 31, 2012:

The entity has established with the Broker an electronic verification with the parties identified above in regards to the transactions of investments. Accordingly, **we consider this matter resolved.**

MEMORANDUM
(CONTINUED)

Fiscal Policies:

During our current audit we noted that certain policies have not been updated to conform to current Federal OMB Circulars. Consideration should be given to adopting policy language that embraces potential changes in guidance of regulatory or professional nature without requiring a continual review of the actual policies.

Status as of December 31, 2012:

The entity has updated their fiscal policies to reflect the current Federal OMB Circulars. The language used allows for flexibility should regulation change. Accordingly, **we consider this matter resolved.**

CURRENT YEAR MEMORANDUM ITEMS

None noted