

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT  
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE  
STATE OF NEW YORK)**

**Financial Statements  
June 30, 2010 and 2009  
Together with  
Independent Auditors' Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT  
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**TABLE OF CONTENTS**

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|  | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT   | 1 - 2       |
| MANAGEMENT'S DISCUSSION AND ANALYSIS   | 3 - 8       |
| FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED<br>JUNE 30, 2010 AND 2009:  |             |
| Statement of Net Assets  | 9           |
| Statement of Revenue, Expenses and Change in Net Assets  | 10          |
| Statement of Cash Flows  | 11          |
| Notes to Basic Financial Statements  | 12 - 24     |
| SUPPLEMENTAL SCHEDULES:  |             |
| Schedule I - Combining Statement of Net Assets   | 25          |
| Schedule II - Combining Statement of Revenue, Expenses<br>and Change in Net Assets   | 26          |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING<br>AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN<br>AUDIT OF FINANCIAL STATEMENTS PERFORMED IN<br>ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 27 - 28     |

## **INDEPENDENT AUDITORS' REPORT**

September 23, 2010

To the Board of Directors of  
Hudson River-Black River Regulating District:

We have audited the accompanying financial statements of the business-type activities of Hudson River-Black River Regulating District (the Regulating District), a New York Public Benefit Corporation, which is a discretely presented component unit of the State of New York, as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Regulating District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Regulating District'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 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 the 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 business-type activities of the Regulating District as of June 30, 2010 and 2009 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2010, on our consideration of the Regulating District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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.

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(Continued)

## **INDEPENDENT AUDITORS' REPORT**

(Continued)

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 8 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, 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Regulating District's financial statements as a whole. The combining information included in Schedules I and II is presented for purposes of additional analysis and is not a required part of the financial statements. The combining information included in Schedules I and II is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT  
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010 AND 2009**

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This Management's Discussion and Analysis (MD&A) of Hudson River-Black River Regulating District (the Regulating District) provides an introduction to the major activities and operations of the Regulating District and an introduction and overview to the Regulating District's financial performance and statements for the fiscal years ended June 30, 2010 and 2009.

Following this MD&A are the basic financial statements of the Regulating District together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses and Change in Net Assets (on pages 9 and 10, respectively) provide both long-term and short-term information about the Regulating District's overall financial status. The Statement of Cash Flows (on page 11) provides information on the sources and uses of the Regulating District's cash through operating, capital and related financing and investing activities. The information contained in the MD&A should be considered in conjunction with the information contained in the Financial Statements and the Notes to Financial Statements.

**REGULATING DISTRICT ACTIVITIES**

The Regulating District was created in 1959 when the New York State Legislature passed legislation (Article 15 Title 21 of the Environmental Conservation Law) combining the Hudson River Regulating District, founded in 1922, and the Black River Regulating District, founded in 1919. Both were created to regulate the flow of the waters of New York State's two great neighboring watersheds.

The legislation charged the Regulating District with regulating the flow of the two rivers, including health and safety, as required by the public welfare. Specifically, the Regulating District's responsibilities include reducing floods caused by excess run-off, and augmenting river flow at times of drought or other periods when normal river flows are low. Organized as a public benefit corporation, the Regulating District was given a broad spectrum of legal powers to accomplish this mission, including the authority to build and operate reservoirs, issue bonds, and apportion costs on its beneficiaries to finance construction, maintenance, and operation of its reservoirs.

The Regulating District's operations are conducted under two regional operating units - one for the Black River area and another for the Hudson River area - each with segregated budgets. The management of both regions is vested in a seven-member Board appointed by the Governor of New York State. The mission of the Regulating District is to regulate the flows of the Hudson River and Black River for the purposes of flood protection and flow augmentation. The Regulating District Board formulates policies to accomplish its mission at Great Sacandaga Lake, providing flood protection and low flow augmentation through reservoir releases in accordance with the Upper Hudson/Sacandaga Offer of Settlement; at Indian Lake, Stillwater Reservoir, Old Forge and Sixth Lake, providing storage during periods of high flow and augmenting flows during periods of low flow; operating a data-gathering system for precipitation, stream flow, snow depth and flood conditions; providing the public with information pertinent to its mission; operating and maintaining facilities; maintaining a sound financial status for Regulating District operations; managing the lands of the State of New York under the Regulating District's jurisdiction; and promulgating rules and regulations necessary to fulfilling its mission.

## REGULATING DISTRICT ACTIVITIES (Continued)

The Regulating District currently receives its primary funding from statutory beneficiaries, comprised of hydroelectric power generators, industrial operations and municipalities that directly benefit from augmented river flow and flood protection. These beneficiaries are annually assessed their proportional share of Regulating District operating expenses. A secondary revenue source comes from hydropower agreements that provide annual revenue in exchange for the ability to utilize headwater on Regulating District-administered state land for hydroelectric generating purposes. A third source of revenue, in the Hudson River area only, is the Sacandaga Lake Access Permit System, which generates revenue equal to the cost to operate the Great Sacandaga Lake Permit System.

## FACILITIES

**Hudson River Area Facilities:** The Regulating District administers the lands of the State of New York that constitute the Great Sacandaga Lake (Sacandaga Reservoir) as well as its shoreline, and issues annual revocable permits to eligible property owners for access to the lake across State land. The lake, impounded behind the Conklingville Dam, is the heart of Regulating District operations in the 8,300 square mile Hudson-Sacandaga area. The Regulating District also owns and operates Indian Lake Reservoir and Dam.

**Black River Area Facilities:** In the Black River drainage area of 1,916 square miles, the Regulating District operates reservoirs and dams at Stillwater, Old Forge, and Sixth Lake.

**Administrative Offices:** The Regulating District's Hudson River Area Office occupies leased space in Albany. A Regulating District-owned building in Mayfield houses the Sacandaga Field Office for the Hudson River Area. The Regulating District's Black River Area Office occupies rented space in Watertown. A Regulating District-owned building at the Stillwater Reservoir houses the Black River Field Office.

## OPERATIONS SUMMARY

The Regulating District's scope of operations and concomitant costs (in 000s) tend to be relatively stable from year to year:

|                                     | <u>Black River Area</u> |                 |                | <u>Hudson River Area</u> |                   |                 |
|-------------------------------------|-------------------------|-----------------|----------------|--------------------------|-------------------|-----------------|
|                                     | <u>2010</u>             | <u>2009</u>     | <u>2008</u>    | <u>2010</u>              | <u>2009</u>       | <u>2008</u>     |
| Operating revenues                  | \$ 916                  | \$ 967          | \$ 965         | \$ 6,837                 | \$ 5,718          | \$ 5,846        |
| Operating expenses                  | <u>(1,684)</u>          | <u>(1,264)</u>  | <u>(1,135)</u> | <u>(6,424)</u>           | <u>(7,119)</u>    | <u>(6,728)</u>  |
| Operating income (loss)             | (768)                   | (297)           | (170)          | 413                      | (1,401)           | (882)           |
| Net non-operating revenue (expense) | <u>123</u>              | <u>149</u>      | <u>186</u>     | <u>28</u>                | <u>87</u>         | <u>128</u>      |
| Change in net assets                | <u>\$ (645)</u>         | <u>\$ (148)</u> | <u>\$ 16</u>   | <u>\$ 441</u>            | <u>\$ (1,314)</u> | <u>\$ (754)</u> |

## **OPERATIONS SUMMARY (Continued)**

The consolidated Regulating District revenues are derived from three primary sources. The financing of the two areas is accomplished independently because operating costs of each are recovered from two different sets of statutory beneficiaries, hydropower (or water usage) agreements and, in the Hudson River area only, the Great Sacandaga Lake Permit System. Statutory beneficiaries in both watersheds are assessed proportional shares of all other budgeted operating and overhead costs, after deducting the estimated revenue from the hydropower agreements, permit system, and estimated interest income. In 2009, the Regulating District determined the cost of the Permit System using a costing methodology recommended to the Board by an outside consultant. Revenue from statutory beneficiaries, hydropower agreements, and permit holders, if collected, is sufficient to balance the Regulating District's annual budget.

Operating expenses fall into four major categories: property taxes, personnel expenses, engineering and maintenance, and administrative overhead. While other expenses remain fairly stable, engineering and maintenance costs vary from year to year depending on a number of factors that affect our reservoirs, dams, and shoreline. These factors include, but are not necessarily limited to, weather, environmental protection and remediation, regulatory requirements, and recreational use of facilities. Since it is the dams that make possible the Regulating District's regulating of reservoir levels and river flows, and which restrain water to prevent flooding, maintenance of these dams is the Regulating District's primary activity.

For fiscal year 2010 vs. 2009, permit system direct labor increased approximately \$92K due in large part to an increase in permit system related activities around the Great Sacandaga Lake buffer zone. Erosion control decreased by \$30K due to a decision to discontinue that activity pending the replacement of lost funding.

For fiscal year 2009 versus 2008, engineering consultant costs increased approximately \$111k, or 150%, for dam inspections that were required by the Federal Energy Regulatory Commission (FERC). Additionally, contractual services increased approximately \$126k, or 14%, due to construction work related to the FERC required dam inspections. The largest of those involved geotechnical studies and dam intake repair of the Conklingville Dam.

The Regulating District maintains board restricted reserve funds to minimize the effect that budget fluctuations would have on the statutory beneficiaries that provide its primary funding. These reserve funds absorb operating surpluses in lower expense years, and provide a means of funding operating deficits in high expense years – an effective means of assessment stabilization. For Fiscal year 2010, all reserves of the Hudson River Area were liquidated to absorb funding shortfalls following a federal preemption of its authority to assess Federal Energy Regulatory Commission licensed hydro companies in the Hudson River Area. Current reserves represent 82% of the total Regulating District unrestricted net assets designated by the Board.

Contributing somewhat to annual imbalances between revenues and expenses has been the Regulating District's legislative mandate to adopt three-year budgets. While multi-year budgets, with revenues assessed equally for three years, serve to stabilize assessments during the budget cycle, they also tend toward surplus early in the multi-year cycle and deficit in the final year. Fiscal year 2010 was the first year of the three year budgeting cycle.

## STATEMENT OF NET ASSETS SUMMARY (000s)

|  | <u>2010</u>     | <u>2009</u>     | <u>2008</u>     |
|--|-----------------|-----------------|-----------------|
| Buildings                                      | \$ 937          | \$ 937          | \$ 937          |
| Building improvements, furniture and equipment | 1,694           | 1,694           | 752             |
| Vehicles                                       | 842             | 842             | 819             |
| Construction in progress                       | -               | -               | 629             |
| Dam structures                                 | <u>14,118</u>   | <u>14,118</u>   | <u>14,118</u>   |
| Cost of capital assets                         | 17,591          | 17,591          | 17,255          |
| Less: Accumulated depreciation                 | <u>(13,489)</u> | <u>(13,229)</u> | <u>(12,955)</u> |
| Net book value of capital assets               | 4,102           | 4,362           | 4,300           |
| Current assets                                 | <u>10,383</u>   | <u>6,503</u>    | <u>6,691</u>    |
| Total assets                                   | 14,485          | 10,865          | 10,991          |
| Less: Liabilities                              | <u>(7,237)</u>  | <u>(3,413)</u>  | <u>(2,076)</u>  |
| Net assets                                     | <u>\$ 7,248</u> | <u>\$ 7,452</u> | <u>\$ 8,915</u> |

This analysis reflects the Regulating District's stable financial position. Asset growth generally occurs in governmental units when 1) cash assets are accumulated, and/or 2) debt is used to finance acquisition or construction of capital (durable) assets such as equipment, furniture, land, buildings, major improvements that extend the life of a capital asset, or leasehold improvements.

Asset shrinkage occurs when 1) accumulated cash assets are used for expenses that exceed revenues, and/or 2) assets acquired during the year cost less than "depreciation."

The Regulating District reserves funds for repairs and assessment stabilization. The Regulating District is managing its financial position by currently appropriating accumulated surpluses to minimize assessment increases to statutory beneficiaries. The effect on the balance sheet is to reduce cash assets. As mentioned below, there was a significant increase in liabilities, which is due to the increase in other post employment health benefits liability.

In fiscal year 2010, accounts receivable and accounts payable increased significantly. The past due assessment receivables are directly related to an Article 78 legal challenge filed by the five (5) counties arguing against the Board's authority to assess maintenance and operations cost upon them. As a result of the U.S. District Court's ruling which preempted the Board's state authority to assess licensed hydro companies and the subsequent refusal by the counties to pay the new apportionment levied upon them, the Board made the decision to hold all school and property tax payments pending a solution to the past due assessment receivable.

During the past year, depreciation expense was more than the cost of acquired assets, which decreased the book value of assets. Growth of capital assets in a governmental unit is not necessarily an indicator of positive financial conditions, nor is negative capital growth necessarily an indicator of financial deterioration.

For the Regulating District, the stability in its balance sheet reflects management's ability to monitor and maintain the capital assets, and the conservative management of its cash assets to minimize increases in assessments and fees.

## **DEBT**

The Regulating District plans to issue a Tax Anticipation Note (TAN) during fiscal 2011 in an amount not to exceed \$3.8 million, as a funding bridge until it collects its statutory assessment currently under litigation challenge (see additional information following). Issuance of the TAN is dependent upon the Board receiving statutory authority from the New York State legislature to do so.

## **FINANCIAL CONDITION**

A 2008 U.S. District Court decision pre-empted the Hudson River Area's authority to assess its costs upon Federal Energy Regulatory Commission (FERC) licensed hydroelectric power companies. That group of statutory beneficiaries comprised approximately 80% of the Hudson River Area's required funding. Consequently, the Hudson River Area is operating with a structural deficit pending the receipt of subsequent assessments issued against five local counties and reimbursement of qualified Section 10(f) costs prescribed for by the Federal Power Act.

More specifically, the aforementioned statutory beneficiaries had remained largely stable since 1925.

On March 30, 2010, the Board adopted a Resolution apportioning costs to operate the Hudson River Area among Warren, Washington, Saratoga, Rensselaer and Albany Counties. Those beneficiaries have jointly challenged the apportionment in an Article 78 proceeding currently pending in NYS Supreme Court, Saratoga County. Barring a court order, the counties have refused to pay an assessment levied using the new apportionment despite the Regulating District's clear statutory authority to do so. Current cash flow analysis forecasts Hudson River Area operational solvency through the upcoming fiscal cycle ending June 30, 2011.

In addition, annually since 2000, one former statutory beneficiary, Niagara Mohawk Power Corporation, d/b/a National Grid, has commenced three proceedings each year against the Regulating District challenging the Regulating District's apportionment of costs against that utility. National Grid annually commences one proceeding in NYS Supreme Court, Herkimer County, challenging the Black River Area Assessments against National Grid properties in that watershed and one proceeding in NYS Supreme Court, Hamilton County, challenging the Hudson River Area Assessments in the Hudson River Watershed. The third annual effort is an administrative proceeding addressed to the Regulating District Board. National Grid also annually files a Notice of Claim in the NYS Court of Claims. In each filing, National Grid argues that other entities benefitting from the Regulating District are not apportioned their fair share of the Regulating District's costs and seeks \$6,000,000 in refunds for allegedly over-charged assessments for previous years. As described in Note 8 to the financial statements, this litigation may impact future operating statements, but the effect cannot be reasonably estimated at this time.

Additionally, the District's senior management team is developing a new business model in the Hudson River Area in an effort to streamline operations around its mission.

In the Black River Area, operating results remain predictable and within an acceptable range of budget variance.

## **FUTURE ECONOMIC EVENTS**

During the Regulating District's 2011 fiscal year, the Board expects FERC to issue a Headwater Benefits Study report defining the equitable portion of the Regulating District's Federal Power Act section 10(f) costs to be paid by the federally licensed merchant for profit hydropower generators benefitted by the Regulating District's operation. The resulting FERC order will complete the shift of the Regulating District's primary funding source from federally licensed for profit hydropower generators to five counties identified in the state statutorily authorized March 30, 2010 Apportionment. These two beneficiary groups, one under federal authority and the other pursuant to state authority, will be assessed annually their proportional share of Regulating District operating expenses.

## **REQUESTS FOR INFORMATION**

The accompanying financial statements are designed to provide detailed information on the Regulating District's operations to all those with an interest in the Regulating District's financial affairs. Questions concerning any of the information provided in this report, or any request for additional information, should be addressed to the Chief Fiscal Officer, Hudson River-Black River Regulating District, 350 Northern Boulevard, Albany, New York 12204.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT  
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010 AND 2009**

|   | <u>2010</u>         | <u>2009</u>         |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| CURRENT ASSETS:   |                     |                     |
| Cash  | \$ 1,966,506        | \$ 2,151,997        |
| Investments   | 2,721,468           | 3,834,044           |
| Accounts receivable   | 5,193,757           | 5,125               |
| Prepaid expenses  | <u>501,193</u>      | <u>511,840</u>      |
| Total current assets  | 10,382,924          | 6,503,006           |
| CAPITAL ASSETS, net   | <u>4,101,622</u>    | <u>4,361,835</u>    |
| Total assets  | <u>14,484,546</u>   | <u>10,864,841</u>   |
| <b>LIABILITIES</b>  |                     |                     |
| CURRENT LIABILITIES:  |                     |                     |
| Accounts payable  | 2,626,929           | 147,360             |
| Current portion of other postemployment benefits                | 392,139             | 307,198             |
| Current portion of due to New York State Retirement System      | <u>40,004</u>       | <u>35,740</u>       |
| Total current liabilities                                       | 3,059,072           | 490,298             |
| COMPENSATED ABSENCES  | 334,266             | 407,496             |
| OTHER POSTEMPLOYMENT BENEFITS, net of current portion           | 3,809,780           | 2,475,575           |
| DUE TO NEW YORK STATE RETIREMENT SYSTEM, net of current portion | <u>33,751</u>       | <u>39,569</u>       |
| Total liabilities   | <u>7,236,869</u>    | <u>3,412,938</u>    |
| <b>NET ASSETS</b>   |                     |                     |
| INVESTED IN CAPITAL ASSETS                                      | 4,101,622           | 4,361,835           |
| UNRESTRICTED NET ASSETS   | <u>3,146,055</u>    | <u>3,090,068</u>    |
| Total net assets  | <u>\$ 7,247,677</u> | <u>\$ 7,451,903</u> |

The accompanying notes are an integral part of these statements.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT  
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

|  | <u>2010</u>         | <u>2009</u>         |
|--|---------------------|---------------------|
| OPERATING REVENUE:                       |                     |                     |
| Assessments                              | \$ 6,261,242        | \$ 5,232,252        |
| Water power service                      | 1,073,290           | 1,042,029           |
| Permit fees                              | 412,861             | 407,183             |
| Other                                    | <u>5,435</u>        | <u>3,026</u>        |
| Total operating revenue                  | <u>7,752,828</u>    | <u>6,684,490</u>    |
| OPERATING EXPENSES:                      |                     |                     |
| Personnel services and employee benefits | 4,110,571           | 4,202,956           |
| Real estate taxes                        | 2,507,002           | 2,470,276           |
| Contractual services                     | 1,005,419           | 1,092,221           |
| Depreciation                             | 260,213             | 273,460             |
| Material and supplies                    | 189,469             | 278,125             |
| Repairs and maintenance                  | <u>34,968</u>       | <u>66,299</u>       |
| Total operating expenses                 | <u>8,107,642</u>    | <u>8,383,337</u>    |
| Total operating loss                     | <u>(354,814)</u>    | <u>(1,698,847)</u>  |
| NON-OPERATING REVENUE:                   |                     |                     |
| Investment income, net                   | <u>150,588</u>      | <u>236,138</u>      |
| Total non-operating revenue              | <u>150,588</u>      | <u>236,138</u>      |
| CHANGE IN NET ASSETS                     | (204,226)           | (1,462,709)         |
| NET ASSETS - beginning of year           | <u>7,451,903</u>    | <u>8,914,612</u>    |
| NET ASSETS - end of year                 | <u>\$ 7,247,677</u> | <u>\$ 7,451,903</u> |

The accompanying notes are an integral part of these statements.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT  
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

|   | <u>2010</u>           | <u>2009</u>         |
|---|-----------------------|---------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>   |                       |                     |
| Revenues -  |                       |                     |
| Cash received from assessments  | \$ 1,072,610          | \$ 5,232,252        |
| Cash received from water power service  | 1,073,290             | 1,042,029           |
| Cash received from permit fees  | 412,861               | 407,183             |
| Other cash receipts   | 5,435                 | 3,026               |
| Expenses -  |                       |                     |
| Payments to vendors and suppliers for goods and services                              | (1,246,642)           | (4,066,013)         |
| Payments to employees   | <u>(2,766,209)</u>    | <u>(2,746,512)</u>  |
| Net cash flow from operating activities   | <u>(1,448,655)</u>    | <u>(128,035)</u>    |
| <b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                       |                       |                     |
| Purchases of capital assets   | <u>-</u>              | <u>(335,088)</u>    |
| Net cash flow from capital and related financing activities                           | <u>-</u>              | <u>(335,088)</u>    |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>  |                       |                     |
| Proceeds from sales of investments  | 1,112,576             | -                   |
| Purchases of investments  | -                     | (201,497)           |
| Investment income   | <u>150,588</u>        | <u>236,138</u>      |
| Net cash flow from investing activities   | <u>1,263,164</u>      | <u>34,641</u>       |
| <b>CHANGE IN CASH</b>   | (185,491)             | (428,482)           |
| CASH - beginning of year  | <u>2,151,997</u>      | <u>2,580,479</u>    |
| CASH - end of year  | <u>\$ 1,966,506</u>   | <u>\$ 2,151,997</u> |
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>   |                       |                     |
| Operating loss  | \$ (354,814)          | \$ (1,698,847)      |
| Adjustments to reconcile operating income to net cash flow from operating activities: |                       |                     |
| Depreciation  | 260,213               | 273,460             |
| Changes in:   |                       |                     |
| Accounts receivable   | (5,188,632)           | -                   |
| Prepaid expenses  | 10,647                | (39,353)            |
| Accounts payable  | 2,479,569             | 107,594             |
| Settlement payable  | -                     | (227,333)           |
| Compensated absences  | (73,230)              | 48,555              |
| Other postemployment benefits obligation  | 1,419,146             | 1,411,025           |
| Due to New York State Retirement System   | <u>(1,554)</u>        | <u>(3,136)</u>      |
| Net cash flow from operating activities   | <u>\$ (1,448,655)</u> | <u>\$ (128,035)</u> |

The accompanying notes are an integral part of these statements.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT  
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

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**1. ORGANIZATION AND REPORTING ENTITY**

Hudson River-Black River Regulating District (the Regulating District) was created in 1959 under Article 15, Title 21 of the Environmental Conservation Law, which combined two organizations, the Black River Regulating District (Black River,) formed in 1919, and the Hudson River Regulating District (Hudson River,) formed in 1922. The Regulating District is a New York State public benefit corporation that is mandated to regulate stream flows including health and safety as required by public welfare. The regulation of stream flows into the two watershed areas is the mission of the consolidated organization. The day-to-day operation of the two areas is conducted independently, because they are not physically related or connected in any way. Accordingly, the financing of the two areas is accomplished independently, because operating costs of each are recovered from two different sets of statutory beneficiaries, hydropower (or water power) agreements and, in the Hudson River area only, the Great Sacandaga Lake Permit System. Each watershed area has its own operating personnel; however, a common professional staff serves both. Overall direction is supplied by a board appointed by the Governor of New York State.

The Regulating District is a component unit of the State of New York and, as such, is included in the State's general purpose financial statements. The Regulating District's financial statements include all operations for which the Regulating District has financial accountability.

A significant portion of the Regulating District's employees are covered under a collective bargaining agreement with the Civil Service Employees Administration (CSEA) which expired June 30, 2009. Management is in the process of re-negotiating this contract and expects it to be approved in September 2010.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Regulating District's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board for proprietary funds. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent they do not conflict or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The Regulating District has elected not to follow subsequent private sector guidance.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of Presentation

GASB requires the classification of net assets into three components, as defined below:

- **Invested in capital assets, net of related debt** - consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2010 and 2009, the Regulating District did not have any debt.
- **Restricted net assets** - consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. As of June 30, 2010 and 2009, the Regulating District did not have any restricted net assets.
- **Unrestricted net assets** - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

### Cash

The Regulating District's monies must be deposited in Federal Depository Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. During the years ended June 30, 2010 and 2009, the Regulating District also had funds held by New York State in Short Term Investment Pools (STIP). The Regulating District is not responsible for collateralizing the STIP funds, as they are collateralized at the State level. The Regulating District's cash in FDIC insured commercial banks, at times, may exceed federally insured limits. The Regulating District has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

### Investments

The Regulating District's investment policies comply with the New York State Comptroller's guidelines for such policies. In addition, the Regulating District has its own written investment policy. Those policies permit investments in, among other things, obligations of the U.S. Treasury and its agencies and instrumentalities, certificates of deposit and obligations of the State of New York. Investments are recorded at amortized cost, which approximates market value and investment income is recorded in the statement of revenues, expenses and changes in net assets. Investments are in mutual funds with short term maturities of three years or less and are reported as current assets in the statement of net assets.

### Capital Assets

Capital assets are recorded at cost. Capital assets are defined as assets with initial, individual costs exceeding a capitalization threshold of \$5,000 and useful life of two years or more. Depreciation is provided using the straight-line method over the following estimated useful lives:

|                            |               |
|----------------------------|---------------|
| Dam structures             | 100 years     |
| Buildings and improvements | 15 - 40 years |
| Equipment                  | 5 - 7 years   |
| Vehicles                   | 5 years       |

### Accrued Employee Benefits

It is the Regulating District's policy to record employee benefits, including accumulated vacation and sick leave, as a liability. Regulating District employees are granted vacation in varying amounts. Upon retirement from the Regulating District, union employees are reimbursed for fifty percent of all accumulated sick days, up to a stated maximum depending on position held, as specified in the collective bargaining agreement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Budgets

As required by legislation, the Regulating District operates on a three-year budgeting cycle. Separate budgets are developed for the Hudson River area and Black River area since the cost of their respective operations is borne by a group of designated beneficiaries in each watershed. General administration costs, including Board expenses, are allocated on a proportionate basis to the two areas. The cost of operating the Permit System at the Great Sacandaga Lake is estimated for a three-year period. This involves allocating personnel salaries and benefits, as well as portion of facility and equipment costs to permit system operations.

### Assessments

Resolutions are passed by the Regulating District's Board for both the Hudson River area and Black River area annual assessments at the June Board meeting. On July 1<sup>st</sup> of each year, assessments are billed, and on November 1<sup>st</sup>, a transmittal letter is sent to each town, city, or village informing it of each statutory beneficiary in their respective community who did not pay their assessment. Also on November 1<sup>st</sup>, a letter is sent to each county where a statutory beneficiary is located requesting it to charge unpaid assessments on the County's property tax levy for the subsequent year.

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 3. CASH

Cash held by the Regulating District consisted of the following at June 30, 2010:

|                  | <u>Carrying<br/>Value</u> | <u>Bank<br/>Balance</u> |
|------------------|---------------------------|-------------------------|
| Deposit accounts | \$ 121,266                | \$ 164,949              |
|                  | <u>\$ 121,266</u>         | <u>\$ 164,949</u>       |

Cash held by the Regulating District consisted of the following at June 30, 2009:

|                  | <u>Carrying<br/>Value</u> | <u>Bank<br/>Balance</u> |
|------------------|---------------------------|-------------------------|
| Deposit accounts | \$ 142,517                | \$ 231,934              |
|                  | <u>\$ 142,517</u>         | <u>\$ 231,934</u>       |

The Regulating District's cash deposits at June 30, 2010 and 2009 were secured by the FDIC as follows:

|      | <u>2010</u>       | <u>2009</u>       |
|------|-------------------|-------------------|
| FDIC | <u>\$ 164,949</u> | <u>\$ 231,934</u> |

### 3. CASH (Continued)

Deposits held in STIP funds were \$1,844,990 and \$2,009,230 at June 30, 2010 and 2009, respectively.

A summary of the carrying value of cash is as follows for the years ended June 30:

|            | <u>2010</u>         | <u>2009</u>         |
|------------|---------------------|---------------------|
| Cash       | \$ 121,266          | \$ 142,517          |
| STIP funds | 1,844,990           | 2,009,230           |
| Petty cash | <u>250</u>          | <u>250</u>          |
|            | <u>\$ 1,966,506</u> | <u>\$ 2,151,997</u> |

### 4. INVESTMENTS

New York State statutes and guidelines, and the Regulating District's own investment policies, limit the investment of funds to obligations of the U.S. Government and its agencies, certificates of deposit and obligations of the State of New York. At June 30, 2010, investments include \$2,721,468 of government mutual funds with short-term maturities, under a managed investments arrangement with Sentinel Funds. The Regulating District's investments are carried at amortized cost, which approximates market value. At June 30, 2009, investments included \$3,834,044 under a similar investment management arrangement.

## 5. CAPITAL ASSETS

Capital assets consisted of the following at June 30:

|   | <u>2009</u>         | <u>Additions</u>    | <u>Deductions</u> | <u>2010</u>         |
|---|---------------------|---------------------|-------------------|---------------------|
| Hudson River Area:                              |                     |                     |                   |                     |
| Dam structures                                  | \$ 12,104,830       | \$ -                | \$ -              | \$ 12,104,830       |
| Building  | 936,787             | -                   | -                 | 936,787             |
| Building improvements                           | 983,667             | -                   | -                 | 983,667             |
| Office equipment                                | 143,622             | -                   | -                 | 143,622             |
| Other equipment                                 | 80,638              | -                   | -                 | 80,638              |
| Vehicles  | <u>691,667</u>      | <u>-</u>            | <u>-</u>          | <u>691,667</u>      |
| Total at cost                                   | <u>14,941,211</u>   | <u>-</u>            | <u>-</u>          | <u>14,941,211</u>   |
| Less: Accumulated depreciation                  |                     |                     |                   |                     |
| Dam structures                                  | (9,925,295)         | (120,148)           | -                 | (10,045,443)        |
| Building  | (444,930)           | (23,419)            | -                 | (468,349)           |
| Building improvements                           | (40,663)            | (2,254)             | -                 | (42,917)            |
| Office equipment                                | (104,027)           | (7,388)             | -                 | (111,415)           |
| Other equipment                                 | (32,938)            | (1,767)             | -                 | (34,705)            |
| Vehicles  | <u>(621,363)</u>    | <u>(55,643)</u>     | <u>-</u>          | <u>(677,006)</u>    |
| Less: Accumulated depreciation                  | <u>(11,169,216)</u> | <u>(210,619)</u>    | <u>-</u>          | <u>(11,379,835)</u> |
| Total Hudson River Area depreciable assets, net | <u>3,771,995</u>    | <u>(210,619)</u>    | <u>-</u>          | <u>3,561,376</u>    |
| Black River Area:                               |                     |                     |                   |                     |
| Dam structures                                  | 2,013,195           | -                   | -                 | 2,013,195           |
| Building improvements                           | 406,442             | -                   | -                 | 406,442             |
| Equipment                                       | 72,140              | -                   | -                 | 72,140              |
| Vehicles  | 150,801             | -                   | -                 | 150,801             |
| Office equipment                                | <u>6,736</u>        | <u>-</u>            | <u>-</u>          | <u>6,736</u>        |
| Total at cost                                   | <u>2,649,314</u>    | <u>-</u>            | <u>-</u>          | <u>2,649,314</u>    |
| Less: Accumulated depreciation:                 |                     |                     |                   |                     |
| Dam structures                                  | (1,800,202)         | (20,000)            | -                 | (1,820,202)         |
| Building improvements                           | (97,106)            | (10,746)            | -                 | (107,852)           |
| Equipment                                       | (58,527)            | (2,214)             | -                 | (60,741)            |
| Vehicles  | <u>(103,639)</u>    | <u>(16,634)</u>     | <u>-</u>          | <u>(120,273)</u>    |
| Less: Accumulated depreciation                  | <u>(2,059,474)</u>  | <u>(49,594)</u>     | <u>-</u>          | <u>(2,109,068)</u>  |
| Total Black River Area depreciable assets, net  | <u>589,840</u>      | <u>(49,594)</u>     | <u>-</u>          | <u>540,246</u>      |
| Total capital assets, net                       | <u>\$ 4,361,835</u> | <u>\$ (260,213)</u> | <u>\$ -</u>       | <u>\$ 4,101,622</u> |

## 5. CAPITAL ASSETS (Continued)

|   | <u>2008</u>         | <u>Additions</u>  | <u>Deductions</u>   | <u>2009</u>         |
|---|---------------------|-------------------|---------------------|---------------------|
| Hudson River Area:                              |                     |                   |                     |                     |
| Construction in progress                        | \$ 628,688          | \$ -              | \$ (628,688)        | \$ -                |
| Total non-depreciable assets                    | <u>628,688</u>      | <u>-</u>          | <u>(628,688)</u>    | <u>-</u>            |
| Dam structures                                  | 12,104,830          | -                 | -                   | \$ 12,104,830       |
| Building  | 936,787             | -                 | -                   | 936,787             |
| Building improvements                           | 43,300              | 940,367           | -                   | 983,667             |
| Office equipment                                | 143,622             | -                 | -                   | 143,622             |
| Other equipment                                 | 80,638              | -                 | -                   | 80,638              |
| Vehicles  | 691,667             | -                 | -                   | 691,667             |
| Total at cost                                   | <u>14,000,844</u>   | <u>940,367</u>    | <u>-</u>            | <u>14,941,211</u>   |
| Less: Accumulated depreciation                  |                     |                   |                     |                     |
| Dam structures                                  | (9,805,147)         | (120,148)         | -                   | (9,925,295)         |
| Building  | (421,511)           | (23,419)          | -                   | (444,930)           |
| Building improvements                           | (14,972)            | (25,691)          | -                   | (40,663)            |
| Office equipment                                | (100,659)           | (3,368)           | -                   | (104,027)           |
| Other equipment                                 | (25,470)            | (7,468)           | -                   | (32,938)            |
| Vehicles  | (578,568)           | (42,795)          | -                   | (621,363)           |
| Less: Accumulated depreciation                  | <u>(10,946,327)</u> | <u>(222,889)</u>  | <u>-</u>            | <u>(11,169,216)</u> |
| Total Hudson River Area depreciable assets, net | <u>3,054,517</u>    | <u>717,478</u>    | <u>-</u>            | <u>3,771,995</u>    |
| Black River Area:                               |                     |                   |                     |                     |
| Dam structures                                  | 2,013,195           | -                 | -                   | 2,013,195           |
| Building improvements                           | 406,442             | -                 | -                   | 406,442             |
| Equipment                                       | 72,140              | -                 | -                   | 72,140              |
| Vehicles  | 127,392             | 23,409            | -                   | 150,801             |
| Office equipment                                | 6,736               | -                 | -                   | 6,736               |
| Total at cost                                   | <u>2,625,905</u>    | <u>23,409</u>     | <u>-</u>            | <u>2,649,314</u>    |
| Less: Accumulated depreciation:                 |                     |                   |                     |                     |
| Dam structures                                  | (1,780,202)         | (20,000)          | -                   | (1,800,202)         |
| Building improvements                           | (86,360)            | (10,746)          | -                   | (97,106)            |
| Equipment                                       | (56,313)            | (2,214)           | -                   | (58,527)            |
| Vehicles  | (86,028)            | (17,611)          | -                   | (103,639)           |
| Less: Accumulated depreciation                  | <u>(2,008,903)</u>  | <u>(50,571)</u>   | <u>-</u>            | <u>(2,059,474)</u>  |
| Total Black River Area depreciable assets, net  | <u>617,002</u>      | <u>(27,162)</u>   | <u>-</u>            | <u>589,840</u>      |
| Total depreciable assets, net                   | <u>3,671,519</u>    | <u>690,316</u>    | <u>-</u>            | <u>4,361,835</u>    |
| Total capital assets, net                       | <u>\$ 4,300,207</u> | <u>\$ 690,316</u> | <u>\$ (628,688)</u> | <u>\$ 4,361,835</u> |

Depreciation expense charged to operations for the years ended June 30 is as follows:

|                      | <u>2010</u>       | <u>2009</u>       |
|----------------------|-------------------|-------------------|
| Hudson River Area    | \$ 210,619        | \$ 222,889        |
| Black River Area     | <u>49,594</u>     | <u>50,571</u>     |
| Total capital assets | <u>\$ 260,213</u> | <u>\$ 273,460</u> |

## 6. RETIREMENT SYSTEM

### Plan Description

The Regulating District participates in the New York State and Local Employees' Retirement System (the System). This is a cost-sharing, multiple-employer retirement plan. The System provides 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 NYSSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues 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 Employees' Retirement Systems, 110 State Street, Albany, New York 12244.

### Funding Policy

The System is non-contributory except for employees who joined the System after July 27, 1976, who contribute 3% of their salary for the first ten years of employment and nothing thereafter. Under the authority of NYSSRSSL, 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 Regulating District is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

|      |    |         |
|------|----|---------|
| 2010 | \$ | 142,961 |
| 2009 | \$ | 139,639 |
| 2008 | \$ | 132,268 |

The Regulating District's contributions made to the System were equal to 100% of the contributions required for 2010 and 2009.

On May 14, 2003, Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes in the System:

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior to April 1<sup>st</sup>.

On July 30, 2004, Chapter 260 of the Laws of 2004 of the state of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amounts in excess of seven percent of employees' covered salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5% of employees' covered salaries.
- For SFY 2006-07, the amount in excess of 10.5% of employees' covered salaries.

## 6. RETIREMENT SYSTEM (Continued)

### Funding Policy (Continued)

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the System. The December 15 payment due date changed to February 1; however, employers were allowed to prepay their payment by December 15. The covered salary period (April 15 - March 31) does not change for the calculation.

## 7. NET ASSETS

The following is a description of unrestricted net assets designated by the Board:

- **Assessment Stabilization**  
\$676,667 (\$676,667 at June 30, 2009) has been designated for the purpose of stabilizing future assessments.
- **Capital Projects**  
\$1,170,000 (\$1,170,000 at June 30, 2009) has been designated for future capital projects.
- **Other**  
\$413,282 (\$413,282 at June 30, 2009) has been designated for legal, engineering and tax purposes.

## 8. CONTINGENCIES

Prior to 2006, the Regulating District was involved in litigation with two statutory beneficiaries. During 2006, a settlement was agreed to with one of the statutory beneficiaries requiring credits totaling \$682,000 to be applied to the beneficiaries' future assessments in equal annual installments of \$227,333 for the fiscal years ended June 30, 2007, 2008, and 2009. Additionally, the settlement requires that the Regulating District will apply \$380,000 of the existing board designated Hudson River Stabilization fund to reduce future budgets in equal annual installments of \$126,667 for the fiscal years ended June 30, 2007, 2008, and 2009. A liability and settlement expense of \$682,000 was reflected in the June 30, 2006 financial statements. As of June 30, 2009, this settlement had been paid in full.

As of June 30, 2007, the Regulating District continues to be in litigation with one major statutory beneficiary for assessment abatement that could materially affect the financial position of the Regulating District. The case has been in litigation since 2001, and the litigant has filed challenges to its assessment for each of the last eight fiscal years. The litigation remains in the discovery phase and therefore the outcome is uncertain. No amounts have been accrued related to this contingency.

In 2006, the Regulating District was involved in litigation with a person who slipped on property under the Regulating District's jurisdiction. Since the case is in the discovery phase, it is not practical to estimate the ultimate liability of the Regulating District, and no amounts have been accrued related to this contingency.

The Regulating District has been named as defendant in a number of litigation actions relating to challenges to its assessments to various beneficiaries. Due to the nature of these actions, no estimate of ultimate liability, if any, to the Regulating District can be made. Consequently, no reserves have been recorded in the accompanying financial statements for the settlement of these matters.

## 8. CONTINGENCIES (Continued)

During fiscal 2009, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) returned a judgment in favor of the remaining statutory beneficiary which completely preempts any assessment of costs against hydropower operators under the Regulating District's New York Environmental Conservation Law (ECL). As a result of the D.C. Circuit's decision, the Regulating District is no longer able to assess downstream hydroelectric projects under New York State law for a significant portion of the Regulating District's annual operations and maintenance expenses. Moreover, the plaintiff retains the right to seek refunds of previous assessments if it chooses to pursue this course of action; however, it is not possible to determine the scope of this possible action. Accordingly, no amounts have been accrued as a liability relating to this litigation. Although this case remains in the discovery phase, the potential liability to the Regulating District could be \$10,000,000, plus interest if an unfavorable decision is made.

In fiscal year 2010, FERC ordered a headwater benefits study following a decision of the U.S. Court of Appeals which eliminated the Regulating District's ability to assess downstream operators of hydroelectric facilities for benefits received from operation of the Great Sacandaga Lake under New York Environmental Conservation Law. The Regulating District will be liable for one-half of the costs incurred by FERC in conducting its headwater benefits investigation. The Regulating District's share of these costs is expected to range between \$150,000 - \$250,000. The Regulating District will not be assessed for those costs until the headwater benefits proceeding is completed, thus no amounts were accrued in the financial statements.

Until FERC completes its headwater benefits investigation, the Regulating District will not receive any further funding from downstream hydropower operators. To the extent that FERC makes its headwater benefits determination retroactive, the downstream projects may be given credits against their headwater benefits invoices for the difference between the FERC charge and the amount the project owner paid to the Regulating District during the relevant period. Since the headwater benefits charges are likely to be only a fraction of each entity's prior annual assessments, it could take many years before each hydro project operator uses up its credits from past over-collections.

### **Future Assessments**

As a result of litigation described above, 83% of the Regulating District's future assessments may not be assessed and received before the middle of fiscal 2011. Since the Regulating District budgets on a three-year cycle as required by legislation, its ability to implement operational changes before that time may be limited. Management believes that sufficient cash and reserves exist, as well as delaying certain capital projects which would allow them to operate through June 30, 2011. Operations subsequent to that period may be significantly impacted by the lack of assessment revenue being generated.

## 9. HYDROPOWER (WATER USAGE) AGREEMENTS

In the Hudson River area, the Regulating District has a Hydropower Agreement with a hydro electric company effective July 1, 2003 and expiring June 30, 2021, which required an initial annual payment of \$850,000 that increases by 3.0% each year.

In the Black River area, the Regulating District has a Hydropower Agreement with a hydro electric company effective January 1, 1986 and expiring in December 31, 2016, which required an initial annual payment of \$30,000 that increases by 3.0% each year.

Estimated annual required payments to the Regulating District under the terms of these agreements are as follows for the years ending June 30:

|            |    |                   |
|------------|----|-------------------|
| 2011       | \$ | 1,105,488         |
| 2012       |    | 1,138,653         |
| 2013       |    | 1,172,813         |
| 2014       |    | 1,207,997         |
| 2015       |    | 1,244,237         |
| Thereafter |    | <u>7,908,712</u>  |
|            | \$ | <u>13,777,900</u> |

## 10. CONCENTRATIONS

Approximately 68% and 69% of assessment revenues and 55% and 54% of total operating revenues were provided by two statutory beneficiaries for the years ended June 30, 2010 and 2009, respectively.

## 11. POSTEMPLOYMENT HEALTH CARE BENEFITS

### Plan Description

The Regulating District provides certain health care benefits for retired employees. The Regulating District administers the Retirement Benefits Plan (the "Retirement Plan") as a single-employer defined benefit Other Postemployment Benefit Plan (OPEB).

In general, the Regulating District provides health care benefits for those retired personnel who are eligible for a pension through the System. The Retirement Plan can be amended by action of the District subject to applicable collective bargaining and employment agreements. There were 32 retired employees currently receiving benefits at June 30, 2010 and 2009. The Retirement Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan.

### Funding Policy

The obligations of the Retirement Plan are established by action of the Regulating District pursuant to applicable collective bargaining and employment agreements. The required premium contribution rates of retirees range from 0%-25%, depending on when the employee was hired and if the employee is governed by a CSEA or a management exempt plan. The Regulating District will pay 100% of the premiums for the retiree and spouse for a management exempt employee, 100% of the premium for a Union employee, and 75% of the premium for a Union employees' spouse. The Regulating District pays the costs of administering the Retirement Plan. The Regulating District currently contributes enough money to the Retirement Plan to satisfy current obligations on a pay-as-you-go basis to cover annual premiums. The amounts paid during 2010 and 2009 were approximately \$318,000 and \$298,000, respectively.

## 11. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

### Annual OPEB Cost and Net OPEB Obligation

The Regulating District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed 30 years. The following table shows the components of the Regulating Districts' annual OPEB cost for the year, the amount actually contributed to the Retirement Plan, and the changes in the Regulating Districts' net OPEB obligation:

|   |                            |
|---|----------------------------|
| ARC                                     | \$ 1,771,926               |
| Interest on net OPEB obligation         | 28,221                     |
| Adjustment to ARC                       | <u>(63,002)</u>            |
| Annual OPEB cost                        | 1,737,145                  |
| Contributions made                      | <u>(317,999)</u>           |
| Increase in net OPEB obligation         | 1,419,146                  |
| Net OPEB obligation - beginning of year | <u>2,782,773</u>           |
| Net OPEB obligation - end of year       | <u><u>\$ 4,201,919</u></u> |

### Percentage of Annual OPEB Cost

|             |        |
|-------------|--------|
| Contributed | 18.31% |
|-------------|--------|

### Trend Information

The following table provides trend information for the Retirement Plan:

| Year<br><u>Ended</u> | Annual OPEB<br><u>Cost</u> | Actual<br>Employer<br><u>Contribution</u> | Percent<br><u>Contributed</u> | Net OPEB<br><u>Obligation</u> |
|----------------------|----------------------------|---|-------------------------------|-------------------------------|
| 2010                 | \$ 1,737,145               | \$ 317,999                                | 18.3%                         | \$ 4,201,919                  |
| 2009                 | \$ 1,709,274               | \$ 298,249                                | 17.4%                         | \$ 2,782,773                  |
| 2008                 | \$ 1,709,274               | \$ 337,526                                | 19.8%                         | \$ 1,371,748                  |

### Funded Status and Funding Progress

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Retirement Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Retirement Plan is currently not funded.

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities (AAL) for benefits. In the future, the schedule will provide multi-year trend information about the value of plan assets relative to the AAL.

## 11. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

### Schedule of Funding Progress for the Regulating District's Plan

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets (a) | Actuarial Accrued<br>Liability (AAL) (b) | Unfunded AAL<br>(UAAL)<br>(b) - (a) | Funded Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | UAAL as a%<br>of Covered<br>Payroll<br>(b-a)/(c) |
|-----------------------------|-------------------------------------|--|-------------------------------------|-------------------------|---------------------------|--|
| 7/1/2010                    | \$ -                                | \$ 11,036,544                            | \$ 11,036,544                       | 0.0%                    | \$ 1,677,981              | 658%   |
| 7/1/2007                    | \$ -                                | \$ 17,665,905                            | \$ 17,665,905                       | 0.0%                    | \$ 1,786,883              | 989%   |

#### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The Regulating District has elected to use the alternate valuation method, as there are fewer than 100 plan members.

In the July 1, 2010 valuation, the following methods and assumptions were used:

|                                       |   |
|---------------------------------------|---|
| Actuarial cost method                 | Projected unit credit   |
| Discount rate*                        | 3.0%  |
| Medical care cost trend rate          | 8.25% or 10.0% initially, based on age of retirees.<br>The rate is reduced by decrements to an ultimate rate of 5.0% after seven years. |
| Prescription drug trend rate          | 9.0% initially. The rate is reduced by decrements to an ultimate rate of 5.0% after seven years.  |
| Dental trend rate                     | 5.0%  |
| Unfunded actuarial accrued liability: |   |
| Amortization period                   | 30 years  |
| Amortization method                   | Level Dollar  |
| Amortization basis                    | Open  |

\* As the plan is unfunded, the assumed discount rate considers that the Regulating District's investment assets are low risk in nature, such as money market or Sentinel fund.

## 12. LONG-TERM DEBT OBLIGATIONS

At June 30, 2010 the total outstanding long-term obligations of the Regulating District was \$4,536,185. Long-term debt activity for the year is summarized below.

| Business-type activities      | Balance             |                     |                    | Balance<br>06/30/10 | Classified as     |                     |
|-------------------------------|---------------------|---------------------|--------------------|---------------------|-------------------|---------------------|
|                               | 07/01/09            | Additions           | Deletions          |                     | Current           | Non-Current         |
| Other postemployment benefits | \$ 2,782,773        | \$ 1,419,146        | \$ -               | \$ 4,201,919        | \$ 392,139        | \$ 3,809,780        |
| Compensated absences          | <u>407,496</u>      | <u>-</u>            | <u>(73,230)</u>    | <u>334,266</u>      | <u>-</u>          | <u>334,266</u>      |
|                               | <u>\$ 3,190,269</u> | <u>\$ 1,419,146</u> | <u>\$ (73,230)</u> | <u>\$ 4,536,185</u> | <u>\$ 392,139</u> | <u>\$ 4,144,046</u> |

Additions and deletions to compensated absences are shown net since it is impracticable to determine these amounts separately.

### 13. COMMITMENTS

The Regulating District has two operating lease agreements for office space that require monthly payments of \$1,190 through November 2012, and monthly payments of \$3,500 through March 2013, respectively.

The future minimum lease payments for fiscal years ending June 30 under the terms of these lease agreements are as follows:

|      |    |                |
|------|----|----------------|
| 2011 | \$ | 56,376         |
| 2012 |    | 49,188         |
| 2013 |    | <u>39,990</u>  |
|      | \$ | <u>145,554</u> |

Total rent expense recognized by the Regulating District under the terms of all of its office lease agreements was approximately \$57,300 and \$56,700 during the years ended June 30, 2010 and 2009, respectively.

### 14. TERMINATION BENEFITS

During the 2010 fiscal year, the Regulating District approved a one-time early retirement incentive plan, known as the 2010-2011 Retirement Incentive Program (the Program), for all employees. This Program was initiated by the New York State Division of the Budget. To be eligible, employees were required to have 10 years of service with the Regulating District and be at least 50 years of age. An employee also must have been in active service from February 1, 2010 until the commencement of the open period on July 14, 2010. Eligible employees must retire by September 11, 2010.

Employees who take advantage of this incentive will receive approximately one month of additional service credit for each year of service, up to a maximum of three additional years of service credit. The Regulating District funds the Program on a pay-as-you-go basis through the System. During the year ended June 30, 2010, one employee was included in the Program. The future liability to the Regulating District at June 30, 2010 for this one employee cannot be estimated and as a result, no liability has been recorded in the financial statements. Subsequent to year-end, four additional employees announced their retirement to take advantage of the incentives offered in this Program.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**  
**(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**COMBINING STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

|  | <u>Hudson River</u> | <u>Black River</u>  | <u>Total<br/>Regulating<br/>District</u> |
|--|---------------------|---------------------|--|
| <b>ASSETS</b>  |                     |                     |  |
| CURRENT ASSETS:  |                     |                     |  |
| Cash   | \$ 761,569          | \$ 1,204,937        | \$ 1,966,506                             |
| Investments  | -                   | 2,721,468           | 2,721,468                                |
| Accounts receivable  | 5,151,657           | 42,100              | 5,193,757                                |
| Due from (to) District   | 341,166             | (341,166)           | -  |
| Prepaid expenses   | <u>488,881</u>      | <u>12,312</u>       | <u>501,193</u>                           |
| Total current assets   | 6,743,273           | 3,639,651           | 10,382,924                               |
| CAPITAL ASSETS, net  | <u>3,561,376</u>    | <u>540,246</u>      | <u>4,101,622</u>                         |
| Total assets   | <u>10,304,649</u>   | <u>4,179,897</u>    | <u>14,484,546</u>                        |
| <b>LIABILITIES</b>   |                     |                     |  |
| CURRENT LIABILITIES:   |                     |                     |  |
| Accounts payable   | 2,625,028           | 1,901               | 2,626,929                                |
| Current portion of other postemployment benefits                   | 250,969             | 141,170             | 392,139                                  |
| Current portion due to New York State Retirement System            | <u>40,004</u>       | <u>-</u>            | <u>40,004</u>                            |
| Total current liabilities  | 2,916,001           | 143,071             | 3,059,072                                |
| COMPENSATED ABSENCES   | 199,612             | 134,654             | 334,266                                  |
| OTHER POSTEMPLOYMENT BENEFITS, net of<br>current portion           | 3,022,641           | 787,139             | 3,809,780                                |
| DUE TO NEW YORK STATE RETIREMENT SYSTEM,<br>net of current portion | <u>33,751</u>       | <u>-</u>            | <u>33,751</u>                            |
| Total liabilities  | <u>6,172,005</u>    | <u>1,064,864</u>    | <u>7,236,869</u>                         |
| <b>NET ASSETS</b>  |                     |                     |  |
| INVESTED IN CAPITAL ASSETS   | 3,561,376           | 540,246             | 4,101,622                                |
| UNRESTRICTED NET ASSETS  | <u>571,268</u>      | <u>2,574,787</u>    | <u>3,146,055</u>                         |
| Total net assets   | <u>\$ 4,132,644</u> | <u>\$ 3,115,033</u> | <u>\$ 7,247,677</u>                      |

The accompanying notes are an integral part of these schedules.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**  
**(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

|  | <u>Hudson River</u> | <u>Black River</u>  | <u>Total<br/>Regulating<br/>District</u> |
|--|---------------------|---------------------|--|
| <b>OPERATING REVENUE:</b>                |                     |                     |  |
| Assessments                              | \$ 5,403,458        | \$ 857,784          | \$ 6,261,242                             |
| Water power service                      | 1,014,945           | 58,345              | 1,073,290                                |
| Permit fees                              | 412,861             | -                   | 412,861                                  |
| Other                                    | 5,435               | -                   | 5,435                                    |
|  | <u>6,836,699</u>    | <u>916,129</u>      | <u>7,752,828</u>                         |
| <b>OPERATING EXPENSES:</b>               |                     |                     |  |
| Personnel services and employee benefits | 3,070,638           | 1,039,933           | 4,110,571                                |
| Real estate taxes                        | 2,468,872           | 38,130              | 2,507,002                                |
| Contractual services                     | 878,597             | 126,822             | 1,005,419                                |
| Depreciation                             | 210,619             | 49,594              | 260,213                                  |
| Material and supplies                    | 159,495             | 29,974              | 189,469                                  |
| Repairs and maintenance                  | 34,968              | -                   | 34,968                                   |
| Allocated general board expenses         | (399,075)           | 399,075             | -  |
|  | <u>6,424,114</u>    | <u>1,683,528</u>    | <u>8,107,642</u>                         |
| Total operating loss                     | <u>412,585</u>      | <u>(767,399)</u>    | <u>(354,814)</u>                         |
| <b>NON-OPERATING REVENUE:</b>            |                     |                     |  |
| Investment income, net                   | <u>27,964</u>       | <u>122,624</u>      | <u>150,588</u>                           |
| Total non-operating revenue              | <u>27,964</u>       | <u>122,624</u>      | <u>150,588</u>                           |
| CHANGE IN NET ASSETS                     | 440,549             | (644,775)           | (204,226)                                |
| NET ASSETS - beginning of year           | <u>3,692,095</u>    | <u>3,759,808</u>    | <u>7,451,903</u>                         |
| NET ASSETS - end of year                 | <u>\$ 4,132,644</u> | <u>\$ 3,115,033</u> | <u>\$ 7,247,677</u>                      |

The accompanying notes are an integral part of these schedules.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 23, 2010

To the Board of Directors of  
Hudson River-Black River Regulating District:

We have audited the financial statements of the business-type activities of the Hudson River-Black River Regulating District (the Regulating District) a New York State Public Benefit Corporation, which is a discretely presented component unit of the State of New York, as of and for the year ended June 30, 2010 which collectively comprise the Regulating District's basic financial statements, and have issued our report thereon dated September 23, 2010. 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 Regulating District's internal control over financial reporting 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 Regulating District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Regulating District'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Regulating District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, 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.