

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

**Financial Statements  
June 30, 2011 and 2010  
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)**

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## **INDEPENDENT AUDITORS' REPORT**

September 21, 2011

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, 2011 and 2010, 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, 2011 and 2010, 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.

The accompanying financial statements have been prepared assuming that the Regulating District will continue as a going concern. As discussed in Note 8 to the financial statements, the Regulating District assessed various beneficiaries for a significant portion of its revenue. This assessment is currently under litigation and is cause for cash flow concern within the next fiscal year if the Regulating District is unsuccessful in its efforts to collect this revenue. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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(Continued)

## **INDEPENDENT AUDITORS' REPORT**

(Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2011 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.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 7 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 (UNAUDITED)  
JUNE 30, 2011 AND 2010**

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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, 2011 and 2010.

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 Statements of Net Assets and the Statements of Revenue, Expenses and Change in Net Assets (on pages 8 and 9, respectively) provide both long-term and short-term information about the Regulating District's overall financial status. The Statements of Cash Flows (on page 10) 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 of its operations.

### **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:

	Black River Area			Hudson River Area		
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 918	\$ 916	\$ 967	\$ 5,731	\$ 6,837	\$ 5,718
Operating expenses	<u>(1,421)</u>	<u>(1,684)</u>	<u>(1,264)</u>	<u>(6,400)</u>	<u>(6,424)</u>	<u>(7,119)</u>
Operating income (loss)	(503)	(768)	(297)	(669)	413	(1,401)
Net non-operating revenue (expense)	<u>44</u>	<u>123</u>	<u>149</u>	<u>-</u>	<u>28</u>	<u>87</u>
Change in net assets	<u>\$ (459)</u>	<u>\$ (645)</u>	<u>\$ (148)</u>	<u>\$ (669)</u>	<u>\$ 441</u>	<u>\$ (1,314)</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 2011 versus 2010, permit system direct labor decreased approximately \$134K due in large part to a significant reduction in staff resulting from a funding shortfall. Erosion control decreased by \$220K due to a decision to discontinue that activity pending the replacement of lost funding.

For fiscal year 2011 versus 2010 engineering consultant costs decreased approximately \$145k, again due in large part to the delay in the scheduling of Federal Energy Regulatory Commission (FERC) required inspections resulting from a funding shortfall. Additionally, contractual services increased approximately \$526K, due in large part to a 22% Civil Recoveries Fee associated with the collection of the Hudson River Area past due assessments.

For fiscal year 2010 versus 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.

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 retain 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 2011, the Hudson River Area did not set aside any funds for reserves. 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.

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 2011 was the second year of the three year budgeting cycle.

## STATEMENT OF NET ASSETS SUMMARY (000s)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Buildings	\$ 937	\$ 937	\$ 937
Building improvements, furniture and equipment	1,694	1,694	1,694
Vehicles	740	842	842
Dam structures	<u>14,118</u>	<u>14,118</u>	<u>14,118</u>
Cost of capital assets	17,489	17,591	17,591
Less: Accumulated depreciation	<u>(13,655)</u>	<u>(13,489)</u>	<u>(13,229)</u>
Net book value of capital assets	3,834	4,102	4,362
Current assets	<u>12,870</u>	<u>10,383</u>	<u>6,503</u>
Total assets	16,704	14,485	10,865
Less: Liabilities	<u>(10,584)</u>	<u>(7,237)</u>	<u>(3,413)</u>
Net assets	<u>\$ 6,120</u>	<u>\$ 7,248</u>	<u>\$ 7,452</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 postemployment health benefits liability.

In fiscal year 2011, accounts receivable and accounts payable increased significantly. The past due assessment receivables are directly related to an ongoing appeal filed by the five (5) counties (Albany, Rensselaer, Saratoga, Washington, and Warren) arguing against Saratoga County Supreme Court Judge, the Honorable Stephen T. Ferradino's dismissal of their Article 78 proceeding in all respects. As a result of the U.S. District Court's ruling which pre-empted 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.

In fiscal year 2010, accounts receivable and accounts payable increased significantly from fiscal year 2009. The past due assessment receivables were 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.

## **STATEMENT OF NET ASSETS SUMMARY (Continued)**

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 Hudson River Area plans to borrow approximately \$3.045 million from the Black River Area to satisfy an order of mandamus issued by Fulton County Supreme Court in connection with past due property and school taxes for fiscal years 2009-10 and 2010-11.

## **FINANCIAL CONDITION**

The 2008 U.S. District Court decision which pre-empted the Hudson River Area's authority to assess its costs upon FERC licensed hydroelectric power companies continues to hamstring the Hudson River Area's ability to fund its operations. Subsequent to the U.S. Court decision, the Regulating District apportioned upon the five (5) counties (Albany, Rensselaer, Saratoga, Washington, and Warren) that receive flood protection benefits, its assessments for fiscal year 2009-10, 2010-11, and 2011-12. As indicated above, those assessments are currently the subject of an appeal by the counties. The Regulating District expects a decision by the Appellate Court during the 1st quarter of calendar year 2012. Consequently, the Hudson River Area will continue to operate at 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 scheduled for completion sometime in 2012.

Additionally, the Regulating 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. This new model will be incorporated into the next three year budget cycle beginning in July 1, 2012.

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 2011-12 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)**

**STATEMENTS OF NET ASSETS  
JUNE 30, 2011 AND 2010**

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	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 1,100,070	\$ 1,966,506
Investments	2,763,762	2,721,468
Accounts receivable	8,470,487	5,193,757
Prepaid expenses	<u>535,658</u>	<u>501,193</u>
Total current assets	12,869,977	10,382,924
CAPITAL ASSETS, net	<u>3,833,826</u>	<u>4,101,622</u>
Total assets	<u>16,703,803</u>	<u>14,484,546</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Accounts payable	5,122,155	2,626,929
Current portion of compensated absences	66,721	83,567
Current portion of retirement incentive	58,679	-
Current portion of due to New York State Retirement System	<u>40,004</u>	<u>40,004</u>
Total current liabilities	5,287,559	2,750,500
COMPENSATED ABSENCES, net of current portion	200,163	250,699
OTHER POSTEMPLOYMENT BENEFITS	4,826,688	4,201,919
RETIREMENT INCENTIVE, net of current portion	234,716	-
DUE TO NEW YORK STATE RETIREMENT SYSTEM, net of current portion	<u>35,298</u>	<u>33,751</u>
Total liabilities	<u>10,584,424</u>	<u>7,236,869</u>
<b>NET ASSETS</b>		
INVESTED IN CAPITAL ASSETS	3,833,826	4,101,622
UNRESTRICTED NET ASSETS	<u>2,285,553</u>	<u>3,146,055</u>
Total net assets	<u>\$ 6,119,379</u>	<u>\$ 7,247,677</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)**

**STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUE:</b>		
Assessments	\$ 5,072,482	\$ 6,261,242
Water power service	1,105,489	1,073,290
Permit fees	408,060	412,861
Other	62,714	5,435
 Total operating revenue	<u>6,648,745</u>	<u>7,752,828</u>
<b>OPERATING EXPENSES:</b>		
Personnel services and employee benefits	3,279,367	4,110,571
Real estate taxes	2,535,056	2,507,002
Contractual services	646,918	1,005,419
Depreciation	248,942	260,213
Material and supplies	1,111,262	189,469
Repairs and maintenance	402	34,968
 Total operating expenses	<u>7,821,947</u>	<u>8,107,642</u>
 Total operating loss	<u>(1,173,202)</u>	<u>(354,814)</u>
<b>NON-OPERATING REVENUE:</b>		
Investment income, net	44,904	150,588
 Total non-operating revenue	<u>44,904</u>	<u>150,588</u>
<b>CHANGE IN NET ASSETS</b>	<b>(1,128,298)</b>	<b>(204,226)</b>
<b>NET ASSETS - beginning of year</b>	<b><u>7,247,677</u></b>	<b><u>7,451,903</u></b>
<b>NET ASSETS - end of year</b>	<b><u>\$ 6,119,379</u></b>	<b><u>\$ 7,247,677</u></b>

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)**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Revenues -		
Cash received from assessments	\$ 1,795,752	\$ 1,072,610
Cash received from water power service	1,105,489	1,073,290
Cash received from permit fees	408,060	412,861
Other cash receipts	5,170	5,435
Expenses -		
Payments to vendors and suppliers for goods and services	(2,427,038)	(1,246,642)
Payments to employees	<u>(1,814,023)</u>	<u>(2,766,209)</u>
Net cash flow from operating activities	<u>(926,590)</u>	<u>(1,448,655)</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from sales of capital assets	<u>57,544</u>	-
Net cash flow from capital and related financing activities	<u>57,544</u>	-
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	-	1,112,576
Purchases of investments	(42,294)	-
Investment income	<u>44,904</u>	<u>150,588</u>
Net cash flow from investing activities	<u>2,610</u>	<u>1,263,164</u>
<b>CHANGE IN CASH</b>		
CASH - beginning of year	<u>1,966,506</u>	<u>2,151,997</u>
CASH - end of year	<u>\$ 1,100,070</u>	<u>\$ 1,966,506</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Operating loss	\$ (1,173,202)	\$ (354,814)
Adjustments to reconcile operating loss to net cash flow from operating activities:		
Depreciation	248,942	260,213
Bad debt expense	979,705	-
Gain on sale of capital assets	(38,690)	-
Changes in:		
Accounts receivable	(4,256,435)	(5,188,632)
Prepaid expenses	(34,465)	10,647
Accounts payable	2,495,226	2,479,569
Compensated absences	(67,382)	(73,230)
Other postemployment benefits obligation	624,769	1,419,146
Retirement incentive	293,395	-
Due to New York State Retirement System	<u>1,547</u>	<u>(1,554)</u>
Net cash flow from operating activities	<u>\$ (926,590)</u>	<u>\$ (1,448,655)</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, 2011 AND 2010**

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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 expires June 30, 2012.

**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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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)**

### **Other Postemployment Benefits**

The Regulating District provides certain health care benefits to its retired employees in accordance with the provisions of employment contracts. In general, the Regulating District provides health care benefits for those retired personnel who are eligible for a pension through the New York State and Local Employees' Retirement System. There were 37 and 32 retired employees currently receiving benefits at June 30, 2011 and 2010, respectively.

### **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 in deposit accounts consisted of the following at:

	<u>Carrying Value</u>	<u>Bank Balance</u>
June 30, 2011	\$ 261,177	\$ 354,313
June 30, 2010	\$ 121,266	\$ 164,949

### **3. CASH (Continued)**

The Regulating District's cash deposits at June 30, 2011 and 2010 were secured by the FDIC as follows:

	<u>2011</u>	<u>2010</u>
FDIC	\$ 354,563	\$ 164,949

Deposits held in Short Term Investment Pools (STIP), held by the NYS Comptroller's Office, funds were \$838,643 and \$1,844,990 at June 30, 2011 and 2010, respectively.

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

	<u>2011</u>	<u>2010</u>
Cash	\$ 261,177	\$ 121,266
STIP funds	838,643	1,844,990
Petty cash	<u>250</u>	<u>250</u>
	<u>\$ 1,100,070</u>	<u>\$ 1,966,506</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, 2011, investments include \$2,763,762 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, 2010, investments included \$2,721,468 under a similar investment management arrangement.

## 5. CAPITAL ASSETS

Capital assets consisted of the following at June 30:

	<u>2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>2011</u>
<b>Hudson River Area:</b>				
Dam structures	\$ 12,104,830	\$ -	\$ -	\$ 12,104,830
Building and improvements	1,920,454	-	-	1,920,454
Office and other equipment	224,260	-	-	224,260
Vehicles	<u>691,667</u>	<u>-</u>	<u>(102,111)</u>	<u>589,556</u>
Total at cost	<u>14,941,211</u>	<u>-</u>	<u>(102,111)</u>	<u>14,839,100</u>
Less: Accumulated depreciation				
Dam structures	(10,045,443)	(121,048)	-	(10,166,491)
Building and improvements	(511,266)	(25,471)	-	(536,737)
Office and other equipment	(146,120)	(8,460)	-	(154,580)
Vehicles	<u>(677,006)</u>	<u>(47,573)</u>	<u>83,257</u>	<u>(641,322)</u>
Less: Accumulated depreciation	<u>(11,379,835)</u>	<u>(202,552)</u>	<u>83,257</u>	<u>(11,499,130)</u>
Total Hudson River Area depreciable assets, net	<u>3,561,376</u>	<u>(202,552)</u>	<u>(18,854)</u>	<u>3,339,970</u>
<b>Black River Area:</b>				
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	(1,820,202)	(20,000)	-	(1,840,202)
Building improvements	(107,852)	(10,746)	-	(118,598)
Equipment	(60,741)	(2,214)	-	(62,955)
Vehicles	<u>(120,273)</u>	<u>(13,430)</u>	<u>-</u>	<u>(133,703)</u>
Less: Accumulated depreciation	<u>(2,109,068)</u>	<u>(46,390)</u>	<u>-</u>	<u>(2,155,458)</u>
Total Black River Area depreciable assets, net	<u>540,246</u>	<u>(46,390)</u>	<u>-</u>	<u>493,856</u>
Total capital assets, net	<u>\$ 4,101,622</u>	<u>\$ (248,942)</u>	<u>\$ (18,854)</u>	<u>\$ 3,833,826</u>

## 5. CAPITAL ASSETS (Continued)

	<u>2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>2010</u>
Hudson River Area:				
Dam structures	\$ 12,104,830	\$ -	\$ -	\$ 12,104,830
Building and improvements	1,920,454	-	-	1,920,454
Office and other equipment	224,260	-	-	224,260
Vehicles	691,667	-	-	691,667
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 and improvements	(485,593)	(25,673)	-	(511,266)
Office and other equipment	(136,965)	(9,155)	-	(146,120)
Vehicles	(621,363)	(55,643)	-	(677,006)
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	6,736	-	-	6,736
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	(103,639)	(16,634)	-	(120,273)
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>

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

	<u>2011</u>	<u>2010</u>
Hudson River Area	\$ 202,552	\$ 210,619
Black River Area	<u>46,390</u>	<u>49,594</u>
Total depreciation expense	<u>\$ 248,942</u>	<u>\$ 260,213</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 NYSRSSL, 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 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 Regulating District is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

2011	\$ 188,503
2010	\$ 142,961
2009	\$ 139,639

The Regulating District's contributions made to the System were equal to 100% of the contributions required for 2011 and 2010.

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 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 at June 30, 2011 and 2010 has been designated for the purpose of stabilizing future assessments.
- **Capital Projects**  
\$1,170,000 at June 30, 2011 and 2010 has been designated for future capital projects.
- **Other**  
\$413,282 at June 30, 2011 and 2010 has been designated for legal, engineering and tax purposes.

## **8. CONTINGENCIES**

As of June 30, 2011, 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.

The Regulating District has been named as defendant in a number of litigation actions relating to challenges to its assessments, both present and prior, 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.

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 beneficiaries which completely pre-empts 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.

## **8. CONTINGENCIES (Continued)**

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 ECL. 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.

### **Going Concern and Management's Plans**

As a result of litigation described above, the Regulating District assessed the five surrounding counties the revenue it was previously able to obtain from hydropower beneficiaries. Since the five counties are contesting this action, the Regulating District has not received the revenue it has assessed them for the previous two fiscal years, which approximates \$9.8 million.

Those assessments are currently the subject of an appeal by the counties. The Regulating District expects a decision by the Appellate Court during the first quarter of 2012. The ability of the Regulating District to continue as a going concern depends upon it receiving the revenue in fiscal 2012. The financial statements do not include any adjustments that might be necessary if the Regulating District is unable to continue as a going concern.

Consequently, the Regulating District's management is developing a new business model in the Hudson River Area in an effort to streamline operations around its mission. This new model will be incorporated into the next three year budget cycle beginning in July 1, 2012.

## **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:

2012	\$ 1,138,653
2013	1,172,813
2014	1,207,997
2015	1,244,237
2016	1,281,564
Thereafter	<u>6,627,148</u>
	<u>\$ 12,672,412</u>

## **10. CONCENTRATIONS**

Approximately 96% and 68% of assessment revenues and 74% and 55% of total operating revenues were provided by five and two statutory beneficiaries for the years ended June 30, 2011 and 2010, 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 37 and 32 retired employees currently receiving benefits at June 30, 2011 and 2010, respectively. 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 2011 and 2010 were approximately \$328,000 and \$318,000, respectively, and were recorded as operating expenses.

## 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:

	<u>2011</u>	<u>2010</u>
ARC	\$ 1,011,953	\$ 1,771,926
Interest on net OPEB obligation	83,938	28,221
Adjustment to ARC	<u>(142,749)</u>	<u>(63,002)</u>
Annual OPEB cost	953,142	1,737,145
Contributions made	<u>(328,373)</u>	<u>(317,999)</u>
Increase in net OPEB obligation	624,769	1,419,146
Net OPEB obligation - beginning of year	<u>4,201,919</u>	<u>2,782,773</u>
Net OPEB obligation - end of year	<u>\$ 4,826,688</u>	<u>\$ 4,201,919</u>

### Percentage of Annual OPEB Cost

Contributed	34.45%	18.31%
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### Trend Information

The following table provides trend information for the Retirement Plan:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 953,142	\$ 328,373	34.5%	\$ 4,826,688
2010	\$ 1,737,145	\$ 317,999	18.3%	\$ 4,201,919
2009	\$ 1,709,274	\$ 298,249	17.4%	\$ 2,782,773

### 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.

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

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## 11. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Actuarial Valuation Date	Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a% of Covered Payroll (b-a)/(c)
7/1/2010	2011	\$ -	\$ 11,418,496	\$ 11,418,496	0.0%	\$ 1,502,610	760%
7/1/2010	2010	\$ -	\$ 11,036,544	\$ 11,036,544	0.0%	\$ 1,677,981	658%
7/1/2007	2009	\$ -	\$ 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. 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 OBLIGATIONS

Long-term activity for the year ended June 30, 2011 is summarized below.

					Classified as	
	Balance 06/30/10	Additions	Deletions	Balance 06/30/11	Current	Non-Current
Other postemployment benefits	\$ 4,201,919	\$ 953,142	\$(328,373)	\$ 4,826,688	\$ -	\$ 4,826,688
Due to NYS retirement system	73,755	1,547	-	75,302	40,004	35,298
Retirement incentive	-	293,395	-	293,395	58,679	234,716
Compensated absences	334,266	-	(67,382)	266,884	66,721	200,163
	<u>\$ 4,609,940</u>	<u>\$ 1,248,084</u>	<u>\$(395,755)</u>	<u>\$ 5,462,269</u>	<u>\$ 165,404</u>	<u>\$ 5,296,865</u>

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

## **12. LONG-TERM OBLIGATIONS (Continued)**

Long-term activity for the year ended June 30, 2010 is summarized below.

<u>Business-type activities</u>	Balance 06/30/09	<u>Additions</u>	<u>Deletions</u>	Balance 06/30/10	Classified as	
					<u>Current</u>	<u>Non-Current</u>
Other postemployment benefits	\$ 2,782,773	\$ 1,737,145	\$(317,999)	\$ 4,201,919	\$ -	\$ 4,201,919
Due to NYS retirement system	75,309		(1,554)	73,755	40,004	33,751
Compensated absences	<u>407,496</u>	<u>-</u>	<u>(73,230)</u>	<u>334,266</u>	<u>83,567</u>	<u>250,699</u>
	<u><u>\$ 3,265,578</u></u>	<u><u>\$ 1,737,145</u></u>	<u><u>\$(392,783)</u></u>	<u><u>\$ 4,609,940</u></u>	<u><u>\$ 123,571</u></u>	<u><u>\$ 4,486,369</u></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:

2012	\$ 49,188
2013	<u>39,990</u>
<u><u>\$ 89,178</u></u>	

Total rent expense recognized by the Regulating District under the terms of all of its office lease agreements was approximately \$57,000 and \$57,300 during the years ended June 30, 2011 and 2010, 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 had to retire by September 11, 2010.

Employees who took 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. At June 30, 2011, the Regulating District recorded a liability and expense of approximately \$293,000 on behalf of five employees who participated in the Program. The Regulating District will repay this liability in equal installments over the next five years.

## **15. SUBSEQUENT EVENT**

On August 9, 2011, the Board of Directors approved a resolution to liquidate approximately \$3 million in reserve funds for use in payment of the judgment imposed by a Fulton County Court decision to force the Regulating District to pay past-due real estate taxes. This action will deplete the Black River Area's net assets.

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

**COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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	<u>Hudson River</u>	<u>Black River</u>	Total Regulating District
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash	\$ 430,475	\$ 669,595	\$ 1,100,070
Investments	-	2,763,762	2,763,762
Accounts receivable	8,386,649	83,838	8,470,487
Due from (to) District	74,061	(74,061)	-
Prepaid expenses	<u>523,764</u>	<u>11,894</u>	<u>535,658</u>
Total current assets	9,414,949	3,455,028	12,869,977
CAPITAL ASSETS, net	<u>3,339,970</u>	<u>493,856</u>	<u>3,833,826</u>
Total assets	<u>12,754,919</u>	<u>3,948,884</u>	<u>16,703,803</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	5,119,858	2,297	5,122,155
Current portion of compensated absences	38,513	28,208	66,721
Current portion of retirement incentive	53,655	5,024	58,679
Current portion due to New York State Retirement System	<u>40,004</u>	<u>-</u>	<u>40,004</u>
Total current liabilities	5,252,030	35,529	5,287,559
COMPENSATED ABSENCES, net of current portion	115,538	84,625	200,163
OTHER POSTEMPLOYMENT BENEFITS, net of current portion	3,673,462	1,153,226	4,826,688
RETIREMENT INCENTIVE, net of current portion	214,620	20,096	234,716
DUE TO NEW YORK STATE RETIREMENT SYSTEM, net of current portion	<u>35,298</u>	<u>-</u>	<u>35,298</u>
Total liabilities	<u>9,290,948</u>	<u>1,293,476</u>	<u>10,584,424</u>
<b>NET ASSETS</b>			
INVESTED IN CAPITAL ASSETS	3,339,970	493,856	3,833,826
UNRESTRICTED NET ASSETS	<u>124,001</u>	<u>2,161,552</u>	<u>2,285,553</u>
Total net assets	<u>\$ 3,463,971</u>	<u>\$ 2,655,408</u>	<u>\$ 6,119,379</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, 2011**

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	<u>Hudson River</u>	<u>Black River</u>	Total <u>Regulating District</u>
<b>OPERATING REVENUE:</b>			
Assessments	\$ 4,214,697	\$ 857,785	\$ 5,072,482
Water power service	1,045,393	60,096	1,105,489
Permit fees	408,060	-	408,060
Other	62,714	-	62,714
 Total operating revenue	 5,730,864	 917,881	 6,648,745
<b>OPERATING EXPENSES:</b>			
Personnel services and employee benefits	2,507,645	771,722	3,279,367
Real estate taxes	2,498,511	36,545	2,535,056
Contractual services	513,249	133,669	646,918
Depreciation	202,552	46,390	248,942
Material and supplies	1,067,118	44,144	1,111,262
Repairs and maintenance	402	-	402
Allocated general board expenses	(389,222)	389,222	-
 Total operating expenses	 6,400,255	 1,421,692	 7,821,947
 Total operating loss	 (669,391)	 (503,811)	 (1,173,202)
<b>NON-OPERATING REVENUE:</b>			
Investment income, net	718	44,186	44,904
 Total non-operating revenue	 718	 44,186	 44,904
<b>CHANGE IN NET ASSETS</b>			
NET ASSETS - beginning of year	4,132,644	3,115,033	7,247,677
 NET ASSETS - end of year	 \$ 3,463,971	 \$ 2,655,408	 \$ 6,119,379

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 21, 2011

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, 2011, which collectively comprise the Regulating District's basic financial statements and have issued our report thereon dated September 21, 2011. We conducted our audit 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.

**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.