

***HUDSON RIVER-BLACK RIVER  
REGULATING DISTRICT***

***FINANCIAL STATEMENTS***

***JUNE 30, 2007 AND 2006***

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

*TABLE OF CONTENTS*  
*JUNE 30, 2007 AND 2006*

---

	<u>Page</u>
<b>Management's Discussion and Analysis</b>	1-5
<b>Independent Auditor's Report</b>	6-7
<b>Financial Statements:</b>	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11-17
<b>Supplemental Information</b>	
Schedule of Revenues, Expenses and Changes in Net Assets by Area	18
<b>Additional Reports Required by Government Auditing Standards</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of the Basic Financial Statements in Accordance with <i>Government Auditing Standards</i>	19-20
Current Year Findings and Recommendations	21
Prior Year Findings and Recommendations	22

This Management Discussion and Analysis (MD&A) of Hudson River-Black River 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, 2007 and 2006. The MD&A is a requirement of Governmental Accounting Standards Board Statement No. 34.

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 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 Hudson River-Black River Regulating District was created in 1959 when the New York State Legislature passed legislation 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 as required by the public welfare including health and safety. Specifically, the Regulating District's responsibilities involve 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.

Regulating District operations are conducted under two regional operating units - one for the Black River area and another for the Hudson River area - with segregated budgets. The management of both regions is vested in a seven-member Board appointed by the governor made up of three residents of the Black River area, three from the Hudson River area, and a seventh at-large member from anywhere in the State. The Board's obligations are to formulate policy for watershed management, operate and maintain reservoir facilities, regulate flow from reservoirs to minimize flooding and maintain a minimum flow to ensure water quality, operate a data-gathering system for precipitation, stream flow, snow depth and flood conditions; maintain certain specific reservoir levels in accordance with the Offer of Settlement; pay property taxes; maintain a sound financial status for maintenance of facilities and infrastructure; and promulgate rules and regulations necessary to fulfill the Regulating District's mission.

The Regulating District 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.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
 JUNE 30, 2007 AND 2006

---

**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 revokable 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 main office occupies leased space in Albany. A Regulating District owned building in Mayfield houses the branch office for the Hudson-Sacandaga area. A branch office for the Black River area occupies rented space in Watertown.

**OPERATIONS SUMMARY**

During 2007, the financial statements for 2006 were restated to reflect accumulated depreciation and depreciation expense on dam structures which had not been previously provided for. The operations and balance sheet summaries that follow have been restated to conform to that change in accounting policy. (Financial statements footnote 1).

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

	<b>Black River Area</b>		<b>Hudson River Area</b>		<b>District Totals</b>	
	<u>2006-2007</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2005-2006</u>
Total Operating Revenue	\$ 969	\$ 880	\$ 5,798	\$ 5,452	\$ 6,767	\$ 6,332
Total Operating Expenses	<u>930</u>	<u>677</u>	<u>5,456</u>	<u>5,369</u>	<u>6,386</u>	<u>6,046</u>
Operating Income	39	203	342	83	381	286
Net Non-Operating						
Revenue (expense)	<u>179</u>	<u>(87)</u>	<u>153</u>	<u>(459)</u>	<u>332</u>	<u>(546)</u>
Net Income (loss)	<u>\$ 218</u>	<u>\$ 116</u>	<u>\$ 495</u>	<u>\$ (376)</u>	<u>\$ 713</u>	<u>\$ (260)</u>

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 revenue, and estimated interest income. The Sacandaga Lake Access Permit System generates revenue equal to the cost to operate the permitting system. Revenue from statutory beneficiaries, hydropower agreements, and permit holders is reliably adequate to balance the Regulating District's annual budget.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
 JUNE 30, 2007 AND 2006

---

**OPERATIONS SUMMARY (CONTINUED)**

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, recreational use of facilities, environmental protection and remediation, and regulatory requirements. 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.

The Regulating District maintains 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. Current restricted reserves represent 30% of total Regulating District reserves.

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.

**BALANCE SHEET SUMMARY**

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Buildings	\$ 980	\$ 980	\$ -
Leasehold improvements, furniture & equipment	630	607	23
Vehicles	761	657	104
Dam structures	<u>14,753</u>	<u>14,118</u>	<u>635</u>
Cost of capital assets	17,124	16,362	762
Less accumulated depreciation	<u>(12,701)</u>	<u>(12,459)</u>	<u>(242)</u>
Book value of capital assets	4,423	3,903	520
Current assets	<u>6,219</u>	<u>6,162</u>	<u>57</u>
Total assets	10,642	10,065	577
Less liabilities	<u>(989)</u>	<u>(1,125)</u>	<u>136</u>
Net assets	<u>\$ 9,653</u>	<u>\$ 8,940</u>	<u>\$ 713</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 fixed (durable) assets such as equipment, furniture, land, buildings, major improvements that extend the life of a fixed asset, or leasehold improvements.

## **BALANCE SHEET SUMMARY (CONTINUED)**

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's reserve funds for repairs and assessment stabilization are presently considered adequate, so 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.

During the past year, the cost of assets acquired totaled more than depreciation expense, further increasing the book value of assets. Growth of fixed assets in a governmental unit is not necessarily an indicator of financial condition, nor is negative fixed asset growth necessarily an indicator of financial deterioration.

Liabilities decreased during the year, resulting in a \$134,764 increase in Net Assets.

For the Hudson River- Black River Regulating District, the stability in its balance sheet reflects the current adequacy of its fixed assets, and the conservative management of its cash assets to minimize increases in assessments and fees.

## **DEBT**

The Board does not contemplate incurring debt in the near future.

## **FINANCIAL CONDITION**

The financial position of the Regulating District remains stable and healthy. Likewise, operating results remain predictable and within an acceptable range of budget variance. Several issues currently exist, however, that will influence future operating results and financial statements.

During the fiscal year that will end on June 30, 2008, the Regulating District will implement new infrastructure accounting requirements imposed by Governmental Accounting Standards Board Statement No. 45 (GASB No. 45). This implementation will change the accounting for post retirement health insurance from a "pay as you go" method of recognition to an accrual-basis measurement and recognition. It is estimated that for 2008, an additional cost of \$1.3 million for post retirement health insurance will be recognized.

Despite the stability of its operations, the Regulating District is functioning in a dynamic fiscal environment. The statutory beneficiaries have remained largely unchanged since the creation of the Regulating District. However, since 2000 and every year thereafter to date, a statutory beneficiary has commenced proceedings against the Regulating District challenging the Regulating District's apportionment of cost. The statutory beneficiary argues that there are other entities benefitting from the Regulating District that are not apportioned a share of its costs. The suit seeks changes in future assessments as well as refund of allegedly over-charged assessments for previous years. As described in Note 9 in the notes to Financial Statements, this litigation may impact future operating statements, but the affect cannot now be estimated.

## **CONCLUSION**

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, NY 12204.

**CUSACK & COMPANY**  
**Certified Public Accountants LLC**  
7 AIRPORT PARK BOULEVARD  
LATHAM, NEW YORK 12110  
(518) 786-3550  
FAX (518) 786-1538  
E-MAIL ADDRESS: CUSACKCO@NYCAP.RR.COM  
WWW.CUSACKCPA.COM

JOSEPH D. BATTAGLIA, CPA  
KENNETH B. CLAFLIN, CPA  
PAUL A. CUDA, CPA  
JAMES M. CUSACK, CPA  
JASON D. MARRA, CPA  
JOHN A. CRISCONE  
TERRENCE P. GILLOOLEY  
JOHN J. TAFILOWSKI  
KIMBERLY A. URQUHART

CLIFTON PARK/HALFMOON  
(518) 644-7063

MEMBERS OF:  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
AND  
NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Hudson River-Black River Regulating District  
Albany, New York

We have audited the accompanying financial statements of Hudson River-Black River Regulating District (the "Regulating District"), a New York State public benefit corporation, as of June 30, 2007 and 2006 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 of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the 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 Hudson River-Black River Regulating District as of June 30, 2007 and 2006, and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Schedule of Revenues, Expenses and Changes in Net Assets by Area included on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2007 on our consideration of Hudson River-Black River Regulating District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
August 16, 2007

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2007 AND 2006**

---

**ASSETS**

	<b><u>2007</u></b>	<b><u>2006</u></b>
Current Assets:		
Cash	\$ 2,182,619	\$ 2,006,130
Investments	3,424,868	3,640,758
Accounts Receivable	127,765	3,353
Prepaid Expenses	<u>484,045</u>	<u>511,471</u>
Total Current Assets	6,219,297	6,161,712
Capital Assets, Net	<u>4,423,084</u>	<u>3,902,894</u>
	<b><u>\$ 10,642,381</u></b>	<b><u>\$ 10,064,606</u></b>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts Payable	\$ 34,643	\$ 85,318
Compensated Absences	417,139	266,910
Current Portion of Settlement Payable	227,333	227,333
Current Portion Due to NYS Retirement System	<u>38,048</u>	<u>39,756</u>
Total Current Liabilities	717,163	619,317
Settlement Payable, Net of Current Portion Due to New York State Retirement System, Net of Current Portion	227,334	454,667
	<u>45,109</u>	<u>50,386</u>
Total Liabilities	<u>989,606</u>	<u>1,124,370</u>
Net Assets:		
Investment in Capital Assets	4,423,084	3,902,894
Net Assets Designated for Reserves	2,259,949	2,215,000
Unrestricted Net Assets	<u>2,969,742</u>	<u>2,822,342</u>
Total Net Assets	<u>9,652,775</u>	<u>8,940,236</u>
	<b><u>\$ 10,642,381</u></b>	<b><u>\$ 10,064,606</u></b>

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Assessments	\$ 5,361,186	\$ 4,984,466
Water Power Service	982,212	920,765
Permit Fees	<u>423,681</u>	<u>426,801</u>
Total Operating Revenue	<u>6,767,079</u>	<u>6,332,032</u>
Operating Expenses:		
Salaries	1,731,060	1,424,906
Payroll Taxes	118,710	105,673
Pension Expense	129,122	136,210
Other Employee Benefits	342,371	365,357
Post Retirement Health Insurance	287,491	243,312
Real Estate Taxes	2,391,985	2,357,399
Depreciation	247,732	256,015
Insurance	184,526	189,922
Engineering Fees	35,414	29,520
U.S. Geological Survey Contract	75,193	102,949
Rent	52,530	52,530
Utilities	36,859	31,846
Telephone	33,074	31,412
Travel	62,466	62,703
Repairs and Maintenance	27,759	20,682
Professional Fees	425,875	466,844
Postage	11,004	10,889
Office Expense	56,242	56,079
Minor Equipment, Material and Supplies	37,006	31,872
Miscellaneous	18,376	33,678
Erosion Control/Maintenance	<u>81,620</u>	<u>36,390</u>
Total Operating Expenses	<u>6,386,415</u>	<u>6,046,188</u>
Operating Income	<u>380,664</u>	<u>285,844</u>
Non-Operating Revenue (Expenses):		
Interest and Dividend Income	318,633	256,808
Miscellaneous Income	3,014	7,023
Realized and Unrealized Gain (Loss) on Investments	10,228	(127,424)
Settlement Expense	<u>-</u>	<u>(682,000)</u>
Total Non-Operating Revenue (Expense)	<u>331,875</u>	<u>(545,593)</u>
Change in Net Assets	712,539	(259,749)
Net Assets at Beginning of Year, as Restated	<u>8,940,236</u>	<u>9,199,985</u>
Net Assets at End of Year	<u>\$ 9,652,775</u>	<u>\$ 8,940,236</u>

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Cash Received from Providing Services	\$ 6,642,667	\$ 6,458,011
Interest Collected	318,633	256,808
Cash Paid to Employees	(1,580,831)	(1,399,961)
Cash Paid for Employee Related Costs	(884,679)	(878,758)
Cash Paid for Real Estate Taxes	(2,364,559)	(2,332,613)
Cash Paid for Supplies and Other	(1,412,938)	(1,209,107)
Net Cash Provided by Operating Activities	<u>718,293</u>	<u>894,380</u>
Cash Flows from Investing Activities:		
Proceed from Sales of Investments	400,902	-
Purchase of Investments	(174,784)	(165,414)
Purchase of Capital Assets	(767,922)	(32,950)
Proceeds from Sale of Equipment	-	3,660
Net Cash Used in Investing Activities	<u>(541,804)</u>	<u>(194,704)</u>
Net Increase in Cash	176,489	699,676
Cash at Beginning of Year	<u>2,006,130</u>	<u>1,306,454</u>
Cash at End of Year	<u>\$ 2,182,619</u>	<u>\$ 2,006,130</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in Net Assets	\$ 712,539	\$ (259,749)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	247,732	256,015
Realized and Unrealized (Gain) Loss on Investments	(10,228)	127,424
Gain on Sale of Equipment	-	(3,660)
Changes in:		
(Increase) Decrease in Accounts Receivable	(124,412)	125,979
Decrease in Prepaid Expenses	27,426	24,786
Decrease in Accounts Payable	(50,675)	(55,154)
Increase (Decrease) in Settlement Payable	(227,333)	682,000
Increase in Compensated Absences	150,229	24,945
Decrease Due to NYS Retirement System	(6,985)	(28,206)
Net Cash Provided by Operating Activities	<u>\$ 718,293</u>	<u>\$ 894,380</u>

# HUDSON RIVER-BLACK RIVER REGULATING DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Nature of Activities*

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 (formed in 1919) and the Hudson River Regulating District (formed in 1922). The Regulating District is a New York State public benefit corporation that is mandated to regulate stream flows as required by public welfare, including health and safety. 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, 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.

### *Reporting Entity*

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.

### *Basis of Presentation*

The Regulating District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments” and GASB Statement No. 37 “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus.” Statement 34, as amended by Statement 37, established standards for external reporting for all state and local government entities. It requires the classification of net assets equity into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - The component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Regulating District had no restricted net assets at June 30, 2007 and 2006.
- *Unrestricted fund equity* - The component of net assets consists of net assets that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Basis of Accounting*

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles for governmental entities, as prescribed by GASB. In accordance with provisions promulgated by GASB, the Regulating District elected not to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued after November 30, 1989.

The operations of the Regulating District are reported as a proprietary fund and, as such, are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Within this measurement focus, all assets and liabilities associated with operations are included on the balance sheet with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

*Investments*

The Regulating District's investment policies comply with the New York State Comptroller's guidelines for such policies. 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.

*Capitalization and Depreciation*

Capital assets are recorded at cost. Capital assets are defined as assets with initial, individual costs exceeding a capitalization threshold of \$5,000. Depreciation is computed on 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, employees are reimbursed for accumulated vacation days up to a stated maximum. In addition, upon retirement, union employees are reimbursed for fifty percent of all accumulated sick days, up to a stated maximum, as specified in the bargaining agreement.

*Budgets*

By legislation, the Regulating District operates on a three-year cycle. Separate budgets are developed for the Hudson River area and Black River area since the cost of their respective operations are 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 portions of facility and equipment costs to permit system operations.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 them 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 them 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.

**2. CASH**

Cash consists of the following at June 30, 2007:

	<b><u>Carrying Value</u></b>	<b><u>Bank Balance</u></b>
Deposit Accounts	\$ 236,488	\$ 345,371
Deposits held by New York State	<u>1,946,131</u>	<u>-</u>
	<u>\$ 2,182,619</u>	<u>\$ 345,371</u>

The Regulating District's cash deposits at June 30, 2007 were secured by the Federal Depository Insurance Corporation and uncollateralized, as follows:

FDIC Insurance	\$ 155,700
Uncollateralized	<u>189,671</u>
	<u>\$ 345,371</u>

**3. 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, 2007, investments include \$3,424,868 of Government mutual funds with short-term maturities, under a managed investment arrangement with Sentinel Funds. The Regulating District's investments are carried at amortized cost, which approximates market value. At June 30, 2006, investments included \$3,640,758 under a similar investment management arrangement.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

**3. INVESTMENTS (CONTINUED)**

The Regulating District's investments are categorized in accordance with criteria established by GASB to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Regulating District or its agent in the Regulating District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter parties trust department or agent in the Regulating District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter parties, or by its trust department or agent but not in the Regulating District's name. All of the Regulating District's investments are classified in Category 1.

**4. CAPITAL ASSETS AND DEPRECIATION**

Capital assets at June 30, 2007 and 2006 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Hudson River Area:		
Dam Structures	\$ 12,739,984	\$ 12,104,830
Building	936,787	936,787
Building Improvements	43,300	43,300
Office Equipment	125,954	109,927
Other Equipment	31,208	31,208
Vehicles	<u>664,289</u>	<u>560,349</u>
	14,541,522	13,786,401
Less Accumulated Depreciation	<u>(10,737,341)</u>	<u>(10,535,350)</u>
Total Hudson River Area	<u>3,804,181</u>	<u>3,251,051</u>
Black River Area:		
Dam Structures	2,013,195	2,013,195
Leasehold improvements	406,442	406,442
Equipment	58,884	52,819
Vehicles	96,906	96,906
Office Equipment	<u>6,736</u>	<u>6,318</u>
	2,582,163	2,575,680
Less Accumulated Depreciation	<u>(1,963,260)</u>	<u>(1,923,837)</u>
Total Black River Area	<u>618,903</u>	<u>651,843</u>
Total Capital Assets	<u>\$ 4,423,084</u>	<u>\$ 3,902,894</u>

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

---

**4. CAPITAL ASSETS AND DEPRECIATION (CONTINUED)**

Depreciation expense charged to operations for the year ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Hudson River Area	\$ 201,991	\$ 205,197
Black River Area	45,741	50,818
	<u>\$ 247,732</u>	<u>\$ 256,015</u>

**5. 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 system. 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 the 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 New York State and Local Employees' Retirement 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 the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the Pension Accumulation Fund.

The Regulating District is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

2007	\$ 138,925
2006	\$ 167,426
2005	\$ 195,180

The Regulating District's contributions made to the System were equal to 100% of the contributions required for 2007 and 2006.

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 Systems:

- 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.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

---

**5. RETIREMENT SYSTEM (CONTINUED)**

- 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 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 7 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 percent of employees' covered salaries.
- For SFY 2006-07, the amount in excess of 10.5 percent of employees' covered salaries.

The law requires participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 2005 through 2007.

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the New York State and Local Employees' Retirement 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) will not change for the calculation.

**6. NET ASSETS DESIGNATED FOR RESERVES**

The following is a description of net assets designated for reserves:

- Assessment Stabilization - \$676,667 (\$550,000 at June 30, 2006) has been designated for the purpose of stabilizing future assessments.
- Capital Projects - \$1,170,000 (\$1,470,000 at June 30, 2006) has been designated for future capital projects.
- Other - \$413,282 (\$195,000 at June 30, 2006) has been designated for legal, engineering and tax purposes.

**7. POST-RETIREMENT HEALTH CARE BENEFITS**

The Regulating District provides post-employment health insurance coverage to retired employees in accordance with various employment contracts and union agreements. Currently 33 retirees met those eligibility requirements. Health care benefits are provided through an insurance company. The Regulating District recognizes the cost of providing these benefits as an expense in the year paid. Post-employment health care benefits were approximately \$287,000 and \$243,000 for the years ended June 30, 2007 and 2006, respectively.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*

*JUNE 30, 2007 AND 2006*

---

**8. HYDROPOWER (OR WATER USAGE) AGREEMENTS**

In the Hudson River area, the Regulating District has a Hydropower Agreement with a hydroelectric company effective July 1, 2003 and expiring June 30, 2015, requiring an annual payment of \$850,000 increasing 3% each year.

In the Black River area, the Regulating District has a Hydropower Agreement with a hydroelectric company effective January 1, 1986 and expiring December 31, 2016, requiring an annual payment of \$30,000 increasing 3% each year.

**9. 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 installments of \$227,333 for the fiscal years ended June 30, 2007, 2008 and 2009. Additionally, the settlement requires that the District will apply \$380,000 of the existing Hudson River Stabilization Fund to reduce future budgets in equal 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, 2007, the Regulating District continues to be sued by 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 accordingly, the litigant has filed challenges to their assessment for the last seven fiscal years. The litigation is now in the discovery phase and therefore the outcome is uncertain.

**10. CONCENTRATION**

Approximately 65% of assessment revenues and 66% of total operating revenues are provided by two statutory beneficiaries.

**11. NET ASSET RESTATEMENT**

The net assets as of July 1, 2006 were reduced from \$20,361,756 to \$9,199,985, or by \$11,161,771 and depreciation expense for the year ended June 30, 2006 was increased from \$113,542 to \$256,015, or \$142,473 to reflect accumulated depreciation and depreciation expense on dam structures not previously depreciated.

**12. EFFECT OF FUTURE ACCOUNTING PRONOUNCEMENT**

The Regulating District will be implementing Governmental Accounting Standards Board Statement No. 45 "Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions" ("GASB 45"). This implementation will change the accounting for post retirement health insurance from a "pay as you go" method of recognition to an accrual-basis measurement and recognition. It is estimated that for 2008, an additional cost of \$1.3 million for post retirement health insurance will be recognized. Future years will recognize similar increases.

**SUPPLEMENTAL INFORMATION**

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BY AREA  
 FOR THE YEAR ENDED JUNE 30, 2007

	<u>Hudson River Area</u>	<u>Black River Area</u>	<u>Total Regulating District</u>
Operating Revenue:			
Assessments	\$ 4,445,595	\$ 915,591	\$ 5,361,186
Water Power Service	928,818	53,394	982,212
Permit Fees	<u>423,681</u>	<u>-</u>	<u>423,681</u>
 Total Operating Revenue	 <u>5,798,094</u>	 <u>968,985</u>	 <u>6,767,079</u>
Operating Expenses			
Personnel Services and Employee Benefits	2,179,302	429,452	2,608,754
Capital Expenditures	77,592	4,028	81,620
Materials and Supplies	129,009	38,255	167,264
Real Estate Taxes	2,353,463	38,522	2,391,985
Contractual Services	691,963	197,097	889,060
Allocated General Board Expenses	(177,231)	177,231	-
Depreciation	<u>201,991</u>	<u>45,741</u>	<u>247,732</u>
 Total Operating Expenses	 <u>5,456,089</u>	 <u>930,326</u>	 <u>6,386,415</u>
 Operating Income	 <u>342,005</u>	 <u>38,659</u>	 <u>380,664</u>
Non-Operating Revenue:			
Interest and Dividend Income	145,163	173,470	318,633
Miscellaneous Income	2,940	74	3,014
Realized and Unrealized Gain on Investments	<u>4,705</u>	<u>5,523</u>	<u>10,228</u>
 Total Non-Operating Revenue	 <u>152,808</u>	 <u>179,067</u>	 <u>331,875</u>
 Change in Net Assets	 494,813	 217,726	 712,539
Net Assets at Beginning of Year	<u>6,868,655</u>	<u>2,071,581</u>	<u>8,940,236</u>
Net Assets at End of Year	<u>\$ 7,363,468</u>	<u>\$ 2,289,307</u>	<u>\$ 9,652,775</u>

# CUSACK & COMPANY

## Certified Public Accountants LLC

7 AIRPORT PARK BOULEVARD

LATHAM, NEW YORK 12110

(518) 786-3550

FAX (518) 786-1538

E-MAIL ADDRESS: CUSACKCO@NYCAP.RR.COM

WWW.CUSACKCPA.COM

JOSEPH D. BATTAGLIA, CPA

KENNETH B. CLAFLIN, CPA

PAUL A. CUDA, CPA

JAMES M. CUSACK, CPA

JASON D. MARRA, CPA

JOHN A. CRIScone

TERRENCE P. GILLOOLEY

JOHN J. TAFILOWSKI

KIMBERLY A. URQUHART

CLIFTON PARK/HALFMOON

(518) 644-7063

MEMBERS OF:

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
AND

NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Hudson River-Black River Regulating District  
Albany, New York

We have audited the financial statements of Hudson River - Black River Regulating District (the "Regulating District") as of and for the year ended June 30, 2007, and have issued our report thereon dated August 16, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hudson River-Black River Regulating District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations.

#### 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 instance 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 the Board of Directors, management, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
August 16, 2007

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

*CURRENT YEAR FINDINGS AND RECOMMENDATIONS*

*JUNE 30, 2007*

---

1. Cash Reconciliation

The cash reconciliation of one bank account had an unreconciled difference of \$2,542. Policies and procedures must insure that cash is reconciled and that any and all discrepancies are identified and appropriately disposed of. (We were subsequently informed that the general ledger balance was correct and that the reconciliation was in error due to the system defaulting to a date other than month end, which will be corrected)

We recommend that management implement policies to insure cash is reconciled on a timely basis and that all discrepancies are identified and appropriately disposed of. Additionally, supervisor review and sign-off on bank reconciliations should be considered.

2. Prior Year Findings and Recommendations

The prior year findings and recommendations regarding audit adjustments has not been fully addressed by management.

We recommend that management development and implement procedures to formally address the finding and recommendation.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT**

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

---

1. Audit Adjustments

We made seventeen audit adjustments resulting in a net expense of approximately \$890,000.

Management and the Board of Directors must be provided accurate and timely financial statements in order to effectively manage the operations of the Regulating District.

We recommend that procedures be developed and implemented to ensure all accounts are reconciled on a monthly basis and that the appropriate entries are reflected in the books and records on a timely basis.

Status: Although management did provide some analysis and proposed adjustments to us, we proposed nineteen audit adjustments, resulting in a net expense of \$118,000.

2. Qualified Audit Opinion

Prior years and audit opinions have been qualified as fixed assets acquired prior to July 1, 1992 have not been reflected in the accounts and dam structures were not depreciated. Generally accepted accounting principles allow for the values of such assets to be estimated, which if properly performed, could result in future unqualified opinions.

We recommend management consider the costs and benefits of valuing fixed assets acquired prior to July 1, 1992 and depreciating dam structures.

Status: The comment was satisfactorily addressed by management.

3. Governmental Accounting Standards Board Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions" (GASB 45")

The current acceptable practice is to expense health care costs for retired employees on a pay-as-you-go basis. For the Regulating District, effective for its fiscal year, ending June 30, 2009, (earlier application is not only acceptable but is encouraged), GASB 45 will require the accrual basis of accounting for this liability which will report the previously unrecognized liability over a period of years, and will require the services of an actuary. This liability will be material to the Regulating District's financial statement.

We recommend that management develop and implement a plan to implement GASB 45 and consider early implementation.

Status: Management plans to implement GASB 45 at June 30, 2008.