



Hudson River - Black River Regulating District

2014 Annual Report of the HUDSON RIVER - BLACK RIVER REGULATING DISTRICT



The mission of the Hudson River-Black River Regulating District is to regulate the flows of the Hudson River and Black River for the purposes of flood protection and flow augmentation.



Hudson River - Black River Regulating District

MESSAGE FROM THE BOARD

On behalf of the Board of the Hudson River – Black River Regulating District, thank you for your interest in our 2014 Annual Report. As you will note, 2014 was a busy yet productive year for the Regulating District.

In 1959, the New York State Legislature combined the Hudson River Regulating District (established in 1922) with the Black River Regulating District (established in 1919) forming the Hudson River – Black River Regulating District. In 2009 we celebrated fifty years of effective river regulation. The mission of the Hudson River-Black River Regulating District is to regulate the flows of the Hudson River and Black River for the purposes of flood protection and flow augmentation and the Board takes this mission very seriously. Our success is due to the excellent working relationship the Regulating District maintains with Federal, State and local legislators, agencies, organizations and leaders. In addition, we commend our diligent staff.

The Regulating District is a New York State public benefit corporation that is operated with predictability, transparency and accountability in mind. For more information about the operation and governance of the Hudson River – Black River Regulating District please view our website at HRBRRD.com or contact one of our offices.

Sincerely,
Mark M. Finkle
Chairman

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Hudson River - Black River Regulating District

GENERAL REPORT OF THE BOARD OF THE HUDSON RIVER-BLACK RIVER REGULATING DISTRICT PERIOD OF JANUARY 1, 2014 TO DECEMBER 31, 2014

TO THE DEPARTMENT OF ENVIRONMENTAL CONSERVATION

In compliance with provisions of Section 15-2131 of the Environmental Conservation Law this report is submitted to cover functions of the Board of Hudson River-Black River Regulating District for the period January 1, 2014 to December 31, 2014

PURSUANT TO SECTION 15-2131 ENVIRONMENTAL CONSERVATION LAW

15-2131—Reports.

1. The board of any river regulating district created hereunder shall annually, as of such date as the department may provide, submit to it a written report, which shall contain:

- a. An exhibit of the personnel of the board, and all of the employees and persons connected with the board;
- b. A financial statement, showing fully and clearly the finances of the district, the amounts and dates of maturity of all bonds, notes and certificates of indebtedness, the amounts of money received, and from what sources, and amounts of money paid and purposes for which same were paid;
- c. A statement of any petitions received by the board and the action taken thereon;
- d. A descriptive statement of the work done during the previous year; and
- e. A statement of the condition of reservoirs and the results secured by the operation thereof in each case.

2. In addition to the matters outlined above the board shall report to the department such other matters as it shall deem proper or the department shall require.

CONCLUSION

A detailed report of each area as required by Section 15-2131 is included in this report.

The Board desires to express its appreciation for the cooperation by your Department in respect to the function of the Regulating District.

DATED: _____

**BY ORDER OF THE
BOARD OF THE HUDSON RIVER-BLACK RIVER
REGULATING DISTRICT**

By: _____
Mark M. Finkle
Chairman

BOARD MEMBERS:**DAVID W. BERKSTRESSER, OLD FORGE, N.Y.**

Appointed by Governor Paterson on March 31, 2009 to September 1, 2013.
Audit Committee Chairman

THOMAS STOVER, CHAUMONT, N.Y.

Appointed by Governor Paterson on June 28, 2010 to September 1, 2014.
(Resigned: December 9, 2014)

ALBERT J. HAYES, JOHNSTOWN, N.Y.

Appointed by Governor Paterson on September 13, 2010 to September 1, 2015.
Governance and Audit Committee Member

MARK M. FINKLE, GLOVERSVILLE, N.Y.

Appointed by Governor Paterson on November 24, 2010 to September 1, 2012.
Reappointed by Governor Cuomo on July 21, 2014 to September 1, 2017.
Finance Committee Member

JEFFREY ROSENTHAL, AMSTERDAM, N.Y.

Appointed by Governor Cuomo on June 11, 2014 to December 20, 2018.
Governance Committee Chairman

ANTHONY M. NEDDO, WATERTOWN, N.Y.

Appointed by Governor Cuomo on July 11, 2014 to December 7, 2018.
Finance Committee Chairman

Board Meetings and Attendance see link.

<http://www.hrbrd.com/boardmeetingminutesarchive.html>

NAME**TITLE****OFFICE****EXECUTIVE AND ADMINISTRATIVE PERSONNEL**

Michael A. Clark, P.E.	Executive Director	Albany/Mayfield
Robert P. Leslie	General Counsel	Albany
Richard J. Ferrara	Chief Fiscal Officer	Albany
Mary K. Buff	Sr. Administrative Assistant	Albany
Cheryl S. Jaquish	Sr. Administrative Assistant	Albany
John M. Hodgson, Sr.	Hudson River Area Administrator	Mayfield
	Black River Area Administrator	Watertown
Susan A. Visco	Sr. Administrative Assistant	Mayfield
Lori S. McAvoy	Sr. Administrative Assistant	Watertown
Kimberly D. Scott	Sr. Administrative Assistant	Watertown

ENGINEERING DEPARTMENT

Robert S. Foltan, P.E.	Chief Engineer	Albany
Michael A. Mosher, P.E.	Operations Engineer	Albany

FIELD PERSONNEL

Daniel J. Kiskis	Sr. Field Assistant	Mayfield
Stephanie V. Ruzycky	Engineering Assistant	Mayfield
Randy T. Palmateer	Foreman	Mayfield
David J. Ioele	Maintenance Specialist	Mayfield
Eric S. Johnson	Principal Plant Operator	Conklingville Dam
Douglas H. Criss	Field Superintendent	Stillwater Reservoir
Michael A. Dicob	Principal Plant Operator	Stillwater Reservoir
Timothy R. Harwood	Plant Operator	Stillwater Reservoir

PERMANENT PART-TIME

Darrin W. Harr	Resident Gate Keeper	Indian Lake
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CONTRACTUAL SERVICES

<u>NAME</u>	<u>SERVICE</u>	<u>LOCATION</u>
Black River Field Staff	Weather Observer	Big Moose
Gerald Morczek	Weather Observer	Highmarket
William Hanchek	Weather Observer	Hooker
David Sundquist	Weather Observer	Lowville
Peter Ostrum	Weather Observer	Glenfield
Electric Department Foreman	Weather Observer	Beaver Falls*
Brookfield Power	Weather Observer	Black River*
		Taylorville*

*Volunteer cooperators

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE
STATE OF NEW YORK)
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2014 AND
JUNE 30, 2013 (AS RESTATED)**

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated 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 year ended June 30, 2014, and the related notes to the consolidated financial statements, which collectively comprise the Regulating District's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Regulating District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements of Hudson River-Black River Regulating District as of June 30, 2013, were audited by other auditors whose report dated September 26, 2013, expressed an unqualified opinion on those statements.

We have also reviewed the adjustments to the 2013 consolidated financial statements (restated), comprised of the consolidated statement of net position (restated) as at June 30, 2013, the consolidated statement of revenue and expenses and change in net position (restated), and the consolidated statement of cash flows (restated) for the year ended June 30, 2013 arising from the correction of the errors described in Note 14. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 consolidated financial statements (restated) of the Hudson River-Black River Regulating District other than with respect to the adjustments described above and, accordingly, we do not express an opinion or any other form of assurance on the 2013 consolidated financial statements (restated) taken as a whole.

Emphasis of matter

As discussed in Note 14 of the consolidated financial statements, the 2013 consolidated financial statements have been restated to correct an understatement in bad debt expense and accounts and accrued expenses payable.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 8 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.



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Independent Auditor's Report (Continued)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Regulating District's internal control over financial reporting and compliance.

KBL, LLP

KBL, LLP
September 29, 2014

**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, 2014 AND 2013 (AS RESTATED)**

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, 2014 and 2013.

Following this MD&A are the basic consolidated financial statements of the Regulating District together with the notes thereto, which are essential to a full understanding of the data contained in the consolidated financial statements. The Consolidated Statements of Net Position and the Consolidated Statements of Revenue, Expenses and Change in Net Position (on pages 10 and 11, respectively) provide both long-term and short-term information about the Regulating District's overall financial status. The Consolidated Statements of Cash Flows (on page 12) 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 Consolidated Financial Statements and the Notes to the Consolidated 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 the 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.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), *Continued*
JUNE 30, 2014 AND 2013 (AS RESTATED)

REGULATING DISTRICT ACTIVITIES (Continued)

The Regulating District currently receives its primary funding from statutorily defined beneficiaries. In the Hudson River Area, that beneficiary group is comprised of five (5) counties that directly benefit from flood protection. In the Black River Area, statutory beneficiaries are comprised of hydrological power generators and industrial operations that directly benefit from augmented river flow. 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.

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. Revenue from statutory beneficiaries, hydropower agreements, and permit holders, if collected, is sufficient to balance the Regulating District's annual budget.

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 General and Administrative Office occupies leased space in Albany. A Regulating District-owned building in Mayfield houses the Hudson River Area's Sacandaga Field Office. 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.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), *Continued*
JUNE 30, 2014 AND 2013 (AS RESTATED)

OPERATIONS SUMMARY

The Regulating District's scope of operations (in 000s) are as follows:

	Hudson River Area			Black River Area		
	2014	2013 (As Restated)	2012	2014	2013	2012
Operating revenues	\$ 5,477	\$ 8,083	\$ 6,903	\$ 1,237	\$ 1,291	\$ 878
Operating expenses	(8,547)	(12,276)	(7,649)	(1,350)	(1,444)	(1,363)
Operating loss	(3,070)	(4,193)	(746)	(113)	(153)	(485)
Net non-operating revenue (expense)	(11)	1	-	45	1	9
Change in net position	\$ (3,081)	\$ (4,192)	\$ (746)	\$ (68)	\$ (152)	\$ (476)

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 the 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.

From fiscal year June 30, 2013 to June 30, 2014, the operating revenues for the Regulating District decreased primarily due to a reduction of billable assessment revenues to NY State, that was the result of a revised assessment plan for NY State's share of operating and maintenance expenses.

From fiscal year June 30, 2013 to June 30, 2014, operating expenses decreased primarily due to a decrease in bad debt expense. Accounts receivable written off during the 2013 fiscal year to bad debt expense was approximately \$7 million (as restated), compared to additional accounts receivable allowance reserves recorded to bad debt expense during 2014 of approximately \$2 million. During 2013, receivable write-offs were based on an agreement made for a reduced payment on outstanding assessments by the five (5) counties. During 2014, additional accounts receivable allowance reserves were recorded against balances deemed uncollectible due to the financial status of beneficiaries, or balances related to any pending litigations between the Regulating District and beneficiaries. The decrease in operating expenses related to bad debt expense was offset by increased operating expenses due to a one-time litigation settlement payment of approximately \$840,000.

Historically, the Regulating District's board restricted reserve funds have served to minimize the effect that budget fluctuations would have on the statutory beneficiaries that provide its primary funding. When available, 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. At the end of fiscal year ending 2012, all reserves of the Regulating District were liquidated. Currently these funds have yet to be replenished.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), *Continued*
JUNE 30, 2014 AND 2013 (AS RESTATED)

OPERATIONS SUMMARY (Continued)

Annual imbalances between revenues and expenses has led 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 to present a surplus early in the multi-year cycle and a deficit in the final year. Fiscal year 2014 was the second year of the current three year budgeting cycle.

STATEMENT OF NET POSITION SUMMARY (in 000s)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Buildings	\$ 937	\$ 937	\$ 937
Building improvements, furniture & equipment	1,694	1,694	1,694
Vehicles	740	740	740
Dam structures	<u>14,118</u>	<u>14,118</u>	<u>14,118</u>
Cost of capital assets	17,489	17,489	17,489
Less: Accumulated depreciation	<u>(14,321)</u>	<u>(14,110)</u>	<u>(13,886)</u>
Net book value of capital assets	3,168	3,379	3,603
Current assets	<u>2,671</u>	<u>5,760</u>	<u>15,578</u>
Total assets	5,839	9,139	19,181
Less: Liabilities	<u>(8,472)</u>	<u>(7,696)</u>	<u>(14,284)</u>
Net position	<u>\$ (2,633)</u>	<u>\$ 1,443</u>	<u>\$ 4,897</u>

This analysis reflects the Regulating District's 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.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), *Continued*
JUNE 30, 2014 AND 2013 (AS RESTATED)

CAPITAL ASSETS

During the past year, depreciation expense decreased the book value of assets. There have been no capital additions or disposals during fiscal years ended June 30, 2014 or 2013. 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.

DEBT

The Board has approved the Hudson River Area's proposed issuance of \$2,500,000 in serial bonds for the completion of three (3) FERC (Federal Energy Regulatory Commission) required projects. Both projects are associated with the Conklingville Dam. The proposed, but unapproved, timing of the bond's issuance is early spring 2015.

FINANCIAL CONDITION

On March 12, 2013 the Regulating District reached an agreement with the five (5) counties ending several years of litigation. This "consent" agreement reestablishes the District's Hudson River Area assessment funding stream. With this agreement in effect, the Regulating District will be experiencing decreased cash inflows during the 2012-2015 and 2015-2018 budgeting cycles.

The decrease in the Regulating District's net position is also due to an increase in the accounts receivable allowance for doubtful accounts of approximately \$2 million, along with an increase in liabilities of approximately \$800,000 based on the actuarial liability of the Regulating District's postemployment benefits plan.

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

POTENTIAL FUTURE ECONOMIC EVENT

On July 31, 2012, the Regulating District received the final FERC 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 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 12, 2013 Apportionment.

Also, as noted in the final FERC Study, the District had been charging downstream projects for headwater benefits under New York law for many years before the Great Sacandaga Lake Project was licensed and for several years thereafter. The court of appeals made it clear that, once the Great Sacandaga Lake Project was licensed, New York law was completely preempted by section 10(f) and the collection of payments for headwater benefits pursuant to that law was unauthorized. In its order on remand, the Commission stated that, while it could not order the District to refund payments made by the downstream licensees under the New York law, it might be possible to offset headwater benefits payments by these

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), *Continued*
JUNE 30, 2014 AND 2013 (AS RESTATED)

POTENTIAL FUTURE ECONOMIC EVENT (Continued)

amounts. As a prerequisite to that offset, FERC staff will request additional information from the licensees regarding the amounts that the District has collected for each downstream project since the Great Sacandaga Project was licensed and any funds that may have since been returned to the downstream licensees. Upon receipt of this information, the FERC staff will establish a headwater benefits payment schedule for each licensee that reflects the annual amounts that the FERC staff has determined would be owed to the District as compared to the amounts that have already been paid.

REQUESTS FOR INFORMATION

The accompanying consolidated 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)
CONSOLIDATED STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013 (AS RESTATED)

	2014	AS RESTATED 2013
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,070,113	\$ 2,046,217
Accounts receivable, net	1,216,317	3,175,596
Prepaid expenses	385,728	538,767
TOTAL CURRENT ASSETS	2,672,158	5,760,580
CAPITAL ASSETS, NET	3,167,281	3,378,637
TOTAL ASSETS	\$ 5,839,439	\$ 9,139,217
LIABILITIES		
CURRENT LIABILITIES		
Accounts and accrued expenses payable	\$ 1,144,463	\$ 2,014,257
Current portion of compensated absences	304,671	74,999
Current portion of retirement incentive	58,679	58,679
Current portion due to New York State Retirement System	12,054	61,721
TOTAL CURRENT LIABILITIES	1,519,867	2,209,656
NON-CURRENT LIABILITIES		
Compensated absences, net of current portion	-	224,998
Retirement incentive, net of current portion	58,679	117,358
New York State Retirement System payable, net of current portion	25,266	7,425
Other postemployment benefits	6,831,752	6,026,798
TOTAL NON-CURRENT LIABILITIES	6,915,697	6,376,579
TOTAL LIABILITIES	8,435,564	8,586,235
NET POSITION		
Net investment in capital assets	3,167,281	3,378,637
Unrestricted	(5,763,406)	(2,825,655)
TOTAL NET POSITION	\$ (2,596,125)	\$ 552,982

The accompanying notes are an integral part of these consolidated financial statements.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES AND
CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (AS RESTATED)

	2014	AS RESTATED 2013
OPERATING REVENUE		
Assessments	\$ 4,165,060	\$ 4,291,010
New York State assessments	918,142	3,479,631
Water power service	1,207,997	1,166,069
Permit fees	420,728	429,558
Other	2,105	7,843
TOTAL OPERATING REVENUE	6,714,032	9,374,111
OPERATING EXPENSES		
Real estate taxes	2,906,699	2,761,541
Personnel services and employee benefits	3,123,245	2,929,186
Bad debt	1,855,248	7,056,053
Contingencies	846,778	-
Contractual services	895,352	642,269
Depreciation and amortization	211,356	224,750
Materials and supplies	57,961	105,832
Repairs and maintenance	-	50
TOTAL OPERATING EXPENSES	9,896,639	13,719,681
TOTAL OPERATING LOSS	(3,182,607)	(4,345,570)
NON-OPERATING REVENUE		
Investment (loss)/income, net	(2,897)	1,476
Other income	36,397	-
TOTAL NON-OPERATING REVENUE	33,500	1,476
CHANGE IN NET POSITION	(3,149,107)	(4,344,094)
NET POSITION - beginning of year	552,982	4,897,076
NET POSITION - end of year	\$ (2,596,125)	\$ 552,982

The accompanying notes are an integral part of these consolidated financial statements.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (AS RESTATED)

	(AS RESTATED)	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from assessment beneficiaries	\$ 5,187,233	\$ 11,582,613
Cash received from water power service	1,207,997	1,166,069
Cash received from permit fees	420,728	429,558
Other cash receipts	2,105	7,843
Payments to vendors and suppliers for goods and services	(5,395,940)	(9,909,384)
Payments to employees	(2,404,122)	(2,307,267)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(981,999)	969,432
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	5,895	1,476
NET CASH FROM INVESTING ACTIVITIES	5,895	1,476
CHANGE IN CASH	(976,104)	970,908
CASH - beginning of year	2,046,217	1,075,309
CASH - end of year	\$ 1,070,113	\$ 2,046,217
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (3,155,002)	\$ (3,455,824)
Adjustments to reconcile operating loss to net cash flow from operating activities:		
Depreciation and amortization	211,356	224,750
Bad debt	1,855,248	6,166,307
Accounts receivable	104,031	4,639,714
Prepaid expenses	153,039	(17,773)
Accounts and accrued expenses payable	(869,794)	(6,381,919)
Unearned revenue	-	(827,742)
Compensated absences	4,674	23,422
Retirement incentive	(58,679)	(58,679)
Due to New York State Retirement System	(31,826)	17,880
Other postemployment benefits obligation	804,954	639,296
NET CASH FROM OPERATING ACTIVITIES	\$ (981,999)	\$ 969,432

The accompanying notes are an integral part of these consolidated financial statements.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)**

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 and financing of the two areas is conducted independently, because they are not physically related or connected in any way. Accordingly, the 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 consolidated financial statements include all operations for which the Regulating District has financial accountability.

A significant portion of the Regulating District's employees are covered under a collective bargaining agreement with the Civil Service Employees Administration (CSEA) which expired June 30, 2012. At time of issuance of these consolidated financial statements, no new agreement has been reached.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Regulating District's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hudson River and Black River Regulating Districts. All intercompany transactions and balances have been eliminated in consolidation.

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.

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**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation

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

- **Net investment in capital assets** - 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, 2014 and 2013, the Regulating District did not have any debt.
- **Restricted net position** - consists of net position with constraints placed on its 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, 2014 and 2013, the Regulating District did not have any restricted net positions.
- **Unrestricted net position** - all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Reclassifications

Amounts from prior year may have been reclassified to conform to current year presentation. There were no changes to the Regulating District's 2013 overall net position or change in net position.

Recent Accounting Pronouncements

In November 2013, The Government Accounting Standards Board ("GASB") Issued Statement No. 71 ("Statement 71") "*Pension Transition for Contributions Made Subsequent To The Measurement Date - An Amendment of GASB Statement No. 68*". The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, "*Accounting and Financial Reporting for Pensions*" ("Statement 68"). The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension

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HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Statement 68, approved in June 2012, establishes requirements for accounting and financial reporting for pensions by state and local government employers and nonemployer contributing entities. The requirements of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2014.

The Regulating District deemed no additional disclosures were required in relation to this pronouncement and anticipates full adoption during the 2014-2015 fiscal year.

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**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, 2014 and 2013, 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.

Accounts Receivable

Accounts receivable consists of assessments due from beneficiaries. Accounts receivable are carried on the statements of net position at net realizable value. The Regulating District has elected to record bad debts using the allowance method. Accounts receivable are recorded net of the allowance for doubtful accounts of \$2,134,039 and \$55,100 at June 30, 2014 and 2013, respectively.

The Regulating District continuously monitors outstanding accounts receivable for collectability. During the year ended June 30, 2014, the Regulating District recognized \$1,855,248 in bad debt expense based on the status of its doubtful accounts.

As a result of the Regulating District's agreement with the five (5) Counties, the Regulating District recognized bad debt expense to write off the existing accounts receivable. This change resulted in recognition of \$7,056,053 (as restated) in bad debt expense during the year ended June 30, 2013.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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.

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 a 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 1st of each year, assessments are billed, and on November 1st, 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 1st, 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.

New York State Assessment

The March 12, 2013 Hudson River Area Apportionment established an "amount chargeable to the state" to be 22.18% of the total Hudson River Area estimated operation and maintenance cost. On July 1 of each year, the amount chargeable to the State is submitted to the New York State Division of Budget for inclusion in the State's annual appropriation bill. The 22.18% chargeable rate for New York State is expected to remain in effect until June 30, 2015, at minimum.

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HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Operating and Non-Operating Revenues

Operating revenue consists of assessments, water power service, and permit fees. The Regulating District defines non-operating revenue as interest earnings on investment assets and realized/unrealized gains or losses on sales of investments.

Income Tax Status

As a public benefit corporation, the Regulating District is exempt from federal and state income taxes.

3. CASH

Cash held by the Regulating District in deposit accounts consisted of the following at:

	Carrying (Book) Value	Bank Balance
June 30, 2014	\$ 227,428	\$ 71,280
June 30, 2013	\$ 49,314	\$ 110,586

The Regulating District's cash deposits that were secured by the FDIC at June 30, 2014 was \$71,280 and \$110,586, respectively.

Deposits held in Short Term Investment Pools (STIP), held by the NYS Comptroller's Office, totaled \$842,435 and \$1,996,653 at June 30, 2014 and 2013, respectively.

A summary of the carrying value of cash and deposits as of June 30, 2014 and June 30, 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Cash	\$ 227,428	\$ 49,314
STIP funds	842,435	1,996,653
Petty cash	250	250
	<u>\$ 1,070,113</u>	<u>\$ 2,046,217</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. CAPITAL ASSETS

Capital assets consisted of the following at June 30:

	<u>2013</u>	<u>Additions</u>	<u>2014</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	589,556	-	589,556
Total at cost	<u>14,839,100</u>	<u>-</u>	<u>14,839,100</u>
Less: accumulated depreciation			
Dam structures	(10,432,005)	(144,467)	(10,576,472)
Building and improvements	(670,726)	(24,591)	(695,317)
Office and other equipment	(169,127)	(8,112)	(177,239)
Vehicles	(592,827)	-	(592,827)
Less: total accumulated depreciation	<u>(11,864,685)</u>	<u>(177,170)</u>	<u>(12,041,855)</u>
Total Hudson River Area depreciable assets, net	<u>2,974,415</u>	<u>(177,170)</u>	<u>2,797,245</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>2,649,314</u>
Less: accumulated depreciation:			
Dam structures	(1,880,202)	(23,510)	(1,903,712)
Building improvements	(139,466)	(9,810)	(149,276)
Equipment	(65,588)	(866)	(66,454)
Vehicles	(159,836)	-	(159,836)
Less: total accumulated depreciation	<u>(2,245,092)</u>	<u>(34,186)</u>	<u>(2,279,278)</u>
Total Black River Area depreciable assets, net	<u>404,222</u>	<u>(34,186)</u>	<u>370,036</u>
Total capital assets, net	<u>\$ 3,378,637</u>	<u>\$ (211,356)</u>	<u>\$ 3,167,281</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. CAPITAL ASSETS, CONTINUED

	<u>2012</u>	<u>Additions</u>	<u>2013</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	589,556	-	589,556
Total at cost	<u>14,839,100</u>	<u>-</u>	<u>14,839,100</u>
Less: accumulated depreciation			
Dam structures	(10,287,538)	(144,467)	(10,432,005)
Building and improvements	(645,406)	(25,320)	(670,726)
Office and other equipment	(162,417)	(6,710)	(169,127)
Vehicles	(588,266)	(4,561)	(592,827)
Less: total accumulated depreciation	<u>(11,683,627)</u>	<u>(181,058)</u>	<u>(11,864,685)</u>
Total Hudson River Area depreciable assets, net	<u>3,155,473</u>	<u>(181,058)</u>	<u>2,974,415</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>2,649,314</u>
Less: accumulated depreciation:			
Dam structures	(1,860,202)	(20,000)	(1,880,202)
Building improvements	(129,344)	(10,122)	(139,466)
Equipment	(64,721)	(867)	(65,588)
Vehicles	(147,133)	(12,703)	(159,836)
Less: total accumulated depreciation	<u>(2,201,400)</u>	<u>(43,692)</u>	<u>(2,245,092)</u>
Total Black River Area depreciable assets, net	<u>447,914</u>	<u>(43,692)</u>	<u>404,222</u>
Total capital assets, net	<u>\$ 3,603,387</u>	<u>\$ (224,750)</u>	<u>\$ 3,378,637</u>

There were no disposal of assets during the years ended June 30, 2014 and 2013, respectively.

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HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. CAPITAL ASSETS, CONTINUED

Depreciation expense charged to operations for the years ended June 30, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Hudson River Area	\$ 177,170	\$ 181,058
Black River Area	34,186	43,692
Total depreciation expense	<u>\$ 211,356</u>	<u>\$ 224,750</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 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

Membership, benefits, and employer and employee obligations to contribute are described in the NYSRSSL using the tier concept. Pension legislation established tier membership by the date a member last joined the Retirement System. They are as follows:

- Tier 1 - Those persons who last became members of the System before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally those persons who are State correction officers who last became members on or after July 27, 1976, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983.
- Tier 5 - Those persons who last became members of the System on or after January 1, 2010.
- Tier 6 - Those persons who last became members of the System on or after April 1, 2012.

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5. RETIREMENT SYSTEM, CONTINUED

Funding Policy, Continued

The Regulating District's employees are among Tiers 1, 3 and 4. Employees in Tier 3 and 4 are required to contribute at least 3% of their wages to the System. For employees in Tier 3 and 4, the 3% contribution ceases after 10 years of membership or 10 years of credited service.

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who join on or after April 1, 2012 will contribute 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members will vary based on each member's annual compensation varying between 3-6%.

The System cannot be diminished or impaired. Benefits can be reduced for future membership only by an act of the New York State Legislature. The Regulating District's contributions for the fiscal years ended June 30, 2014, 2013, and 2012 were equal to the required contributions for the plan fiscal year as follows:

2014	\$ 242,630
2013	\$ 223,497
2012	\$ 177,442

6. 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 27 retired employees currently receiving benefits at June 30, 2014. 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.

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6. POSTEMPLOYMENT HEALTH CARE BENEFITS, CONTINUED

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 employee's 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 amount paid during 2014 and 2013 was approximately \$398,000 and \$357,000, respectively, and were recorded as operating expenses.

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 District's annual OPEB cost for the year, the amount actually contributed to the Retirement Plan, and the changes in the Regulating District's net OPEB obligation:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Annual required contribution (ARC)	\$ 1,329,142	\$ 1,078,669
Interest on net OPEB obligation	180,804	117,732
Adjustment to ARC	<u>(307,483)</u>	<u>(200,219)</u>
Annual OPEB cost	1,202,463	996,182
Contributions made	<u>(397,509)</u>	<u>(356,886)</u>
Increase in net OPEB obligation	804,954	639,296
Net OPEB obligation - beginning of year	<u>6,026,798</u>	<u>5,387,502</u>
Net OPEB obligation - end of year	<u>\$ 6,831,752</u>	<u>\$ 6,026,798</u>

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6. POSTEMPLOYMENT HEALTH CARE BENEFITS, CONTINUED

Trend Information

The following table provides trend information for the Retirement Plan for the three years ended June 30,:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Annual OPEB cost	\$ 1,202,463	\$ 996,182	\$ 953,142
Actual employer contribution	\$ 397,509	\$ 356,886	\$ 392,328
Employer contribution as a percent of the annual OPEB cost	33%	36%	41%
Net OPEB obligation at end of year	\$ 6,831,752	\$ 6,026,798	\$ 5,387,502

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.

Actuarial Valuation Date	Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
7/1/2013	6/30/14	\$ -	\$ 15,825,364	\$ 15,825,364	0%	\$ 1,202,541	1316%
7/1/2010	6/30/13	\$ -	\$ 11,808,398	\$ 11,808,398	0%	\$ 1,182,433	999%
7/1/2010	6/30/12	\$ -	\$ 11,418,496	\$ 11,418,496	0%	\$ 1,174,449	972%

See Independent Auditor's Report.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)**

6. POSTEMPLOYMENT HEALTH CARE BENEFITS, CONTINUED

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, 2013 valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Investment rate of return *	3.00%
Inflation rate	3.00%
Medical care cost trend rate	7.50% until next fiscal year, based on age of retirees. The rate is reduced by decrements to an ultimate rate of 5.00% by 2022.
Prescription drug trend rate	6.25% until next fiscal year. The rate is reduced by decrements to an ultimate rate of 5.00% by 2022.
Dental trend rate	4.00%

Assumptions for unfunded actuarial accrued liability:

Actuarial cost method	Projected Unit Credit
Amortization period	30 years
Amortization method	Level Dollar
Amortization period status	Open

* As the plan is unfunded, the assumed investment rate of return considers that the Regulating District's deposits are low risk in nature.

The Affordable Care Act (ACA) was signed into law in March 2010. The new law has a financial impact on employers who sponsor post employment health care benefits. The effects of the ACA legislation has been incorporated in the Actuarial Accrued Liability as of July 1, 2013 disclosed above.

See Independent Auditor's Report.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)

7. NET POSITION

Due to the Regulating District's negative unrestricted net position as of June 30, 2014 and 2013, there have been no designation of funds set aside for needed projects.

8. CONTINGENCIES

As of June 30, 2014, the Regulating District continues to defend a series of Article 78 challenges brought by one beneficiary with properties in both the Hudson and Black River Areas. The Plaintiff, a utility, seeks to nullify assessments levied by the Regulating District between 2000 and 2013. The parties have completed extensive Discovery. The suits are on hold pending resolution of Plaintiff's federal court challenge covering many of the same issues. Motions for Summary Judgment are pending in the federal court. These cases commenced annually in the State Supreme Court since 2001 and in the U.S.D.C., N.D.N.Y. in 2009 and the outcome is presently uncertain. The Regulating District intends to vigorously defend any claims which may be asserted. With the outcome uncertain, no amounts have been accrued related to this contingency.

During fiscal 2009, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) returned a judgment in favor of a former statutory beneficiary which completely preempts any assessment of costs against hydropower operators under the Regulating District's New York Environmental Conservation Law (ECL). As a result of the D.C. Circuit's decision, the Regulating District is no longer authorized to assess downstream FERC-licensed hydroelectric projects under New York State law for a significant portion of the Regulating District's annual operations and maintenance expenses. The Plaintiff then sought a refund of payments made under color of the invalidated state law. On April 2, 2012, Plaintiff secured a judgment against the Regulating District awarding \$516,567 plus interest from January 1, 2003. Following an unsuccessful appeal, the Regulating District negotiated a settlement and then paid \$841,374.46 on November 15, 2013 in full satisfaction. The expenditure is reflected as part of the Operating Expense section within the Statement of Revenue and Expenses and Change in Net Position.

Seven other hydropower plant owners may also elect to seek refunds of previous assessments. In fact, a second hydropower owner brought suit in June 2012 to recoup \$2,753,817 and \$761,813, respectively, for two facilities it owns. A third hydropower owner brought suit in November 2012 to recoup \$771,668. Both the second and third cases have gone to judgment. The Regulating District has appealed both judgments. Oral Argument on both appeals will be heard by the Appellate Division, Third Department in early October 2014. Although this series of cases and potential cases remain under appeal, an unfavorable decision could subject the Regulating District to judgments totaling more than \$5,000,000, plus interest.

The Regulating District intends to vigorously defend any claims which may be asserted. The Regulating District has not accrued a contingency liability because it anticipates that a non-financial settlement will be reached in this matter.

See Independent Auditor's Report.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)**

8. CONTINGENCIES, CONTINUED

On July 31, 2012, FERC issued a Headwater Benefits Determination setting forth that portion of the Regulating District's interest, maintenance and depreciation costs which can be recovered annually from each of the eight hydroelectric FERC licensees downstream of the Conklingville Dam. FERC's Headwaters Benefits Determination requires the Regulating District to reach agreement with each of the eight downstream hydropower operators with respect to when the annual assessment of hydropower benefits will completely offset amounts such operators paid under color of the now invalidated state law. As set forth above, three of the eight hydropower operators have elected to pursue refunds in State Court. The Regulating District will not receive any further funding from downstream hydropower operators until it satisfies the outstanding judgments, wins the two appeals to reduce or eliminate such judgments, and/or offsets the Headwater Benefit Assessments due against the state law based assessments previously paid. As stated above, one judgment has been satisfied. Two judgments are nearing completion of the appeal. The remaining five operators have not brought suit and are expecting offsets. Since the headwater benefits charges are 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 collections. The parties anticipate a FERC order specifying the date upon which operators will begin paying Headwater Benefit Assessments. FERC's order is expected during the fall of 2014.

As a result of the litigation described above, the Regulating District adopted a March 30, 2010 Apportionment through which it assessed five counties immediately downstream of the Conklingville Dam for the revenue it was previously able to obtain from hydropower beneficiaries. Pursuant to a May 10, 2012 Appellate Division Order which invalidated the March 2010 Apportionment to the extent that the Regulating District failed to reduce the total amount apportioned by the amount chargeable to the state, the Regulating District adopted a July 10, 2012 Apportionment of costs which mirrors the March 2010 Apportionment but also levies an amount chargeable to the state. The five counties exhausted their appeal to the NYS Court of Appeals on October 12, 2012 and entered into an Apportionment Consent ratified by the Board on March 13, 2013. The five counties and the State resumed payments of their respective assessments in March 2013. As a result of the Regulating District's agreement with the five (5) Counties, the Regulating District recognized bad debt expense to write off the existing accounts receivable. This change resulted in recognition of \$7,056,053 of bad debt expense (as restated) and a resulting decrease to change in net position for the year ended June 30, 2013 (as restated).

In light of the five counties' non-payment of assessments due, the Regulating District had been unable to pay annual school and properties taxes of approximately \$2.5 million per annum during fiscal year 2011-2012. On August 2, 2012, Fulton County Supreme Court issued a Decision and Judgment requiring payment of \$1,660,130 for taxes due to Fulton County and its school districts and another Decision and Judgment requiring payment of \$119,362 due to Hamilton County and its school districts. Payments made by the five Counties allowed the Regulating District to fully satisfy both judgments.

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HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)

8. CONTINGENCIES, CONTINUED

On April 17, 2014, a Notice of Claim for Personal Injuries was filed alleging that that an individual sustained a broken right hip due to the presence of snow and ice conditions on a plot of land owned by the Regulating District. The Regulating District's insurance carrier, Great American Insurance Group, is handling the defense. No amounts have been accrued relating to this contingency because language at 6 NYCRR 606.35 exempts the State, District and Board from liability.

During the 2014 fiscal year, due to the unsuccessful appeal on behalf of the Regulating District at the Appellate Division (Third Department), a negotiated settlement with Albany Engineering Corporation (AEC) was executed in the amount of \$841,374 to be paid by November 15, 2013. The settlement payment was made in satisfaction of the judgment and the expenditure is reflected as part of the Operating Expense section within the Statement of Revenue and Expenses and Change in Net Position.

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:

	<u>Hudson River</u>		<u>Black River</u>		<u>Total</u>
2015	\$ 1,176,599	\$	67,638	\$	1,244,237
2016	1,211,897		69,667		1,281,564
2017	1,248,254		35,348		1,283,602
2018	1,285,701		-		1,285,701
2019	1,324,273		-		1,324,273
Thereafter	2,768,922		-		2,768,922
	<u>\$ 9,015,646</u>	\$	<u>172,653</u>	\$	<u>9,188,299</u>

See Independent Auditor's Report.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)

10. CONCENTRATIONS

For the year ended June 30, 2014, approximately 85% of assessment revenues and 73% of total operating revenues were provided by five statutory beneficiaries.

At June 30, 2014, approximately 92% of total gross receivables were due from two statutory beneficiaries.

For the year ended June 30, 2013, approximately 83% of assessment revenues and 69% of total operating revenues were provided by six statutory beneficiaries.

At June 30, 2013, approximately 94% of total gross receivables were due from two statutory beneficiaries.

11. LONG-TERM OBLIGATIONS

Long-term obligation activity for the years ended June 30, 2014 and 2013 is summarized below.

	Balance			Balance 6/30/2014	Classified as	
	6/30/2013	Additions	Reductions		Current	Non-Current
Other postemployment benefits	\$ 6,026,798	\$ 1,202,463	\$ (397,509)	\$ 6,831,752	\$ -	\$ 6,831,752
Due to NYS retirement system	69,146	-	(31,826)	37,320	12,054	25,266
Retirement incentive	176,037	-	(58,679)	117,358	58,679	58,679
Compensated absences	299,997	4,674	-	304,671	304,671	-
	<u>\$ 6,571,978</u>	<u>\$ 1,207,137</u>	<u>\$ (488,014)</u>	<u>\$ 7,291,101</u>	<u>\$ 375,404</u>	<u>\$ 6,915,697</u>

	Balance			Balance 6/30/2013	Classified as	
	6/30/2012	Additions	Reductions		Current	Non-Current
Other postemployment benefits	\$ 5,387,502	\$ 996,182	\$ (356,886)	\$ 6,026,798	\$ -	\$ 6,026,798
Due to NYS retirement system	51,266	17,880	-	69,146	61,721	7,425
Retirement incentive	234,716	-	(58,679)	176,037	58,679	117,358
Compensated absences	276,575	23,422	-	299,997	74,999	224,998
	<u>\$ 5,950,059</u>	<u>\$ 1,037,484</u>	<u>\$ (415,565)</u>	<u>\$ 6,571,978</u>	<u>\$ 195,399</u>	<u>\$ 6,376,579</u>

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

See Independent Auditor's Report.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)**

12. COMMITMENTS

The Regulating District has two operating lease agreements for office space. One lease agreement requires quarterly payments of \$3,995 (\$1,332/month) through March 31, 2015. The second lease required monthly payments of \$3,500 through September 1, 2012. From September 1, 2012 to February 28, 2013 monthly payments were reduced to \$3,118. From March 1, 2013 the lease agreement requires monthly payments of \$2,546 through February 2015.

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

June 30, 2015	\$32,353
---------------	----------

Total rent expense recognized by the Regulating District under the terms of all of its office lease agreements was \$46,519 and \$51,875 during the years ended June 30, 2014 and 2013, respectively.

13. 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 received 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, 2014 and 2013, the Regulating District had a liability related to the termination benefits of \$117,358 and \$176,037, respectively.

14. RESTATEMENT OF JUNE 30, 2013 CONSOLIDATED FINANCIALS

Due to an erroneous posting related to bad debt expense and accounts and accrued expenses payable during the year ended June 30, 2013, both items were understated by \$889,746. Accordingly, the 2013 amounts have been adjusted for the restated correct amounts.

See Independent Auditor's Report.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013 (AS RESTATED)**

14. RESTATEMENT OF JUNE 30, 2013 CONSOLIDATED FINANCIALS, CONTINUED

The summary of the affected accounts are as follows:

HUDSON RIVER AREA			CONSOLIDATED		
Accounts per Statement of Net Position			Accounts per Statement of Net Position		
	Original 2013	Restated 2013		Original 2013	Restated 2013
Total liabilities	\$ 5,976,794	\$ 6,866,540	Total liabilities	\$ 7,696,489	\$ 8,586,235
Total unrestricted fund balance	\$ (3,558,505)	\$ (4,448,251)	Total unrestricted fund balance	\$ (1,935,909)	\$ (2,825,655)
Total net position	\$ (584,090)	\$ (1,473,836)	Total net position	\$ 1,442,728	\$ 552,982
Accounts per Statement of Revenues, Expenses and Change in Net Position			Accounts per Statement of Revenues, Expenses and Change in Net Position		
	Original 2013	Restated 2013		Original 2013	Restated 2013
Bad debt expense	\$ 6,166,307	\$ 7,056,053	Bad debt expense	\$ 6,166,307	\$ 7,056,053
Total operating expenses	\$ 11,386,218	\$ 12,275,964	Total operating expenses	\$ 12,829,935	\$ 13,719,681
Total operating loss	\$ (3,302,859)	\$ (4,192,605)	Total operating loss	\$ (3,455,824)	\$ (4,345,570)
Change in net position	\$ (3,302,031)	\$ (4,191,777)	Change in net position	\$ (3,454,348)	\$ (4,344,094)

15. SUBSEQUENT EVENTS

The Company evaluated its June 30, 2014, consolidated financial statements for subsequent events through September 29, 2014, the date the consolidated financial statements were available to be issued and noted the following non-recognized events for disclosure.

See Independent Auditor's Report.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

SCHEDULE I

	Hudson River	Black River	Total Regulating District
ASSETS			
CURRENT ASSETS			
Cash	\$ 666,393	\$ 403,720	\$ 1,070,113
Accounts receivable, net	1,198,886	17,431	1,216,317
Intercompany receivable (payable)	54,960	(54,960)	-
Prepaid expenses	369,934	15,794	385,728
TOTAL CURRENT ASSETS	2,290,173	381,985	2,672,158
CAPITAL ASSETS, NET	2,797,245	370,036	3,167,281
TOTAL ASSETS	\$ 5,087,418	\$ 752,021	\$ 5,839,439
LIABILITIES			
CURRENT LIABILITIES			
Accounts and accrued expenses payable	\$ 1,052,508	\$ 91,955	\$ 1,144,463
Intercompany payable (receivable)	2,984,266	(2,984,266)	-
Current portion of compensated absences	204,625	100,046	304,671
Current portion of retirement incentive	56,167	2,512	58,679
Current portion due to New York State Retirement System	12,054	-	12,054
TOTAL CURRENT LIABILITIES	4,309,620	(2,789,753)	1,519,867
NON-CURRENT LIABILITIES			
Retirement incentive, net of current portion	56,167	2,512	58,679
New York Statement Retirement System payable, net of current portion	25,266	-	25,266
Other postemployment benefits	6,831,752	-	6,831,752
TOTAL NON-CURRENT LIABILITIES	6,913,185	2,512	6,915,697
TOTAL LIABILITIES	11,222,805	(2,787,241)	8,435,564
NET POSITION			
Net investment in capital assets	2,797,245	370,036	3,167,281
Unrestricted	(7,351,929)	1,588,523	(5,763,406)
TOTAL NET POSITION	\$ (4,554,684)	\$ 1,958,559	\$ (2,596,125)

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 AND EXPENSES AND
CHANGE IN NET POSITION
JUNE 30, 2014

SCHEDULE II			
	Hudson River	Black River	Total Regulating District
OPERATING REVENUE			
Assessments	\$ 2,994,100	\$ 1,170,960	\$ 4,165,060
New York State assessments	918,142	-	918,142
Water power service	1,142,329	65,668	1,207,997
Permit fees	420,728	-	420,728
Other	2,105	-	2,105
TOTAL OPERATING REVENUE	5,477,404	1,236,628	6,714,032
OPERATING EXPENSES			
Real estate taxes	2,872,254	34,445	2,906,699
Personnel services and employee benefits	2,994,929	128,316	3,123,245
Bad debt	1,673,670	181,578	1,855,248
Contingencies	846,778	-	846,778
Contractual services	526,509	368,843	895,352
Depreciation	177,170	34,186	211,356
Materials and supplies	33,191	24,770	57,961
Allocated general board expenses	(577,398)	577,398	-
TOTAL OPERATING EXPENSES	8,547,103	1,349,536	9,896,639
TOTAL OPERATING LOSS	(3,069,699)	(112,908)	(3,182,607)
NON-OPERATING REVENUE			
Investment (loss)/income, net			
Interest expense	(47,546)	44,649	(2,897)
Other income	36,397	-	36,397
TOTAL NON-OPERATING REVENUE	(11,149)	44,649	33,500
CHANGE IN NET POSITION	(3,080,848)	(68,259)	(3,149,107)
NET POSITION - beginning of year, <i>as Restated</i>	(1,473,836)	2,026,818	552,982
NET POSITION - end of year	\$ (4,554,684)	\$ 1,958,559	\$ (2,596,125)

The accompanying notes are an integral part of these schedules.



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**INDEPENDENT AUDITOR'S 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**

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

We have audited, in accordance with the 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, the consolidated 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, and a discretely presented component unit of the State of New York, as of and for the year ended June 30, 2014, and the related notes to the consolidated financial statements, which collectively comprise the Regulating District's basic consolidated financial statements, and have issued our report thereon dated September 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Regulating District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Regulating District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Regulating District's internal control.

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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITOR'S 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 consolidated financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KBL, LLP

KBL, LLP
September 29, 2014

2013-14 INTERNAL CONTROL SUMMARY & CERTIFICATION FORM

The Internal Control Summary and Certification Form provides supporting justification for an agency's or authority's level of compliance with the requirements of the Internal Control Act as outlined below.

This form requests information regarding specific actions taken, or needed to be taken, by agencies/authorities to comply with each of the Act's requirements as described in Budget Policy and Reporting Manual (BPRM) Item B-350.

Hudson River-Black River

Regulating District	06302014	Richard J. Ferrara	465-3491
Agency Name	Date	Completed by (Name)	Phone

A. Establish and maintain guidelines for a system of internal controls for the agency or authority. Internal control guidelines communicate an organization's management and programmatic objectives to its employees and provide the methods and procedures used to assess the effectiveness of its internal controls in supporting those objectives. Internal control guidelines should:

1. State the agency head's support of internal controls to provide staff with an understanding of the benefits of effective controls;

The Regulating District's Executive Director (ED) formally communicates to District staff the importance of an effective internal controls program during specific gatherings during the year. The ED communicates annually during the District's "all employee" training day function. The ED also includes a "standing" monthly agenda item on the District's senior staff meeting to discuss I/C status and activities. Progress of the program certification effort is the primary topic of discussion. To that end, all Senior Staff is involved in the ongoing effectiveness of the program. Internal Controls is discussed during all Board meeting.

2. Identify the agency's primary responsibilities and the objectives;

The mission of the Hudson River-Black River 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 accomplishes its mission by:

- 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
- Promulgating rules and regulations necessary to fulfilling its mission.

3. Explain how internal controls are organized and managed;

IC's are organized and managed around Assessable Units – see attached Visio Flow Chart exhibits

4. Define responsibilities of agency management and supervisors and agency staff;

The Board Chairman is the District's Agency Head. The Executive Director carries out the Board's directives. The Chief Fiscal Officer is the District's Internal Controls Officer. The two (2) Watershed Area Administrators are the responsible supervisors for their respective watersheds. They have primary oversight/responsibilities for many of the Assessable Units and associated functions as defined on the attached documents. Key agency staff at each office play a critical role in the formal process mapping of each function and are the process owners.

5. Acknowledge that internal controls adhere to accepted standards; and,

The District's internal controls are being developed around the standards as delineated in the Standards for Internal Controls in New York State Government document. Additionally, the District's Independent Auditor review's the district control programs. Accordingly, internal controls do conform to accepted standards.

6. Describe the organization's process for evaluating internal controls.

The District's process for evaluating internal controls focuses on the mission of the organization, and this mission is kept in mind when evaluating the need and appropriateness of specific internal control practices.

More specifically, the I/C Officer works with the respective area administrator's and process owners in an effort to verify that critical process controls are in place and being followed. This is accomplished by way of interview, documentation review and audit.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The District initiated a comprehensive review of all mission related activities by first assessing their inherent risks, determining the existence of a substantial control, and whether the control was proceduralized and working.

Assessable Units were developed by major organizational area. Each function was identified, described, and assessed for risk level.

Process maps were developed to augment control activities.

- B. Establish and maintain a system of internal controls and a program of internal control review for the agency or authority.** The system of internal control should be developed using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) conceptual framework adopted in the *Standards for Internal Controls in New York State Government*, and should incorporate COSO's five basic components of internal control: control environment, risk assessment, control activities, information and communication and monitoring.

The program of internal control review shall be a structured, continuing and well documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the agency's or authority's internal controls.

Organizations can adopt a system of internal control review tailored to their needs, size and degree of centralization. The procedures for evaluating the adequacy of that system also vary, but at a minimum should:

1. Identify and clearly document the primary operating responsibilities (functions) of the agency or authority;

The District initiated and completed an Internal Control Assessment by Assessable Unit whereby each unit identified their primary functions, inherent risks, control process or procedure, and impact and likelihood.

2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions;

The District initiated and completed an effort to define and assess the objectives of all functions utilizing Function Description and Functional Assessment documents.

3. Identify/document the policies and procedures used to execute functions;

The District initiated and completed an effort to identify and document pertinent policies and procedures used to execute its functions. Where a procedure or process was not in place or poorly documented, the District utilized a DMAIC approach. The DMAIC project methodology has five phases:

- *Define* the problem, the voice of the customer, and the project goals, specifically.
- *Measure* key aspects of the current process and collect relevant data.
- *Analyze* the data to investigate and verify cause-and-effect relationships. Determine what the relationships are, and attempt to ensure that all factors have been considered. Seek out root cause of the defect under investigation.
- *Improve* or optimize the current process based upon data analysis.
- *Control* the process to ensure that any deviations from target are corrected before they result in defects.

4. Identify the major functions of each of the agency's assessable units;

The District developed Assessable Unit charts which are attached for your review.

5. Develop a process or cycle to assess risk and test controls for major functions;

The Districts IC Officer is testing on a quarterly cycle for its Black River Area and Hudson River Area operations and on a bi-annual cycle for its Administrative office in Albany. Process going forward will be to test primary controls for each watershed starting with those involving financial assets.

6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions;

The Districts IC Officer completed Functional Vulnerability Assessments and Function Descriptions for all primary functions. Part of that exercise included "Significant Risks" associated with each function.

7. Test controls to ensure they are working as intended (see the "Manager's Testing Guide" which can be downloaded from BPRM Item B-350);

"Major" functions were tested during the past year by utilizing an interview and sampling testing approach. Those included the District's Access Permit System New/renewal application process and the Black River Area voucher processing.

8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions.

District utilizes Function Assessment & Corrective Action Plan document to monitor and identify deficiencies and corrective actions. It documents the Function reviewed, significant risks, adverse effects, likelihood of occurrence, principal control activity, proposed action to reduce adverse occurrence, responsible person and completion date.

For this requirement, the agency/authority is:

Fully Compliant Partially Compliant Not Compliant

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement and specifically address the following points:

1. Describe the process used to review the agency's/authority's internal controls.

The Districts ICO reviews all pertinent internal controls by Assessable Unit. More specifically, the District's major functions were identified and assessed for risk and likelihood of occurrence. Where formal procedural documentation was missing, each responsible manager was instructed to perform process mapping efforts to establish control points and improvement opportunities.

2. List all high-risk activities and indicate which were reviewed during 2012-13.

The District's high-risk activities include; Disbursement (Voucher) Processing in both Watershed offices.

The Black River Area Accounts Payable (Voucher Processing) was reviewed by way of interview and sampling of transactions.

3. Identify the significant deficiencies revealed during the 2012-13 review process. Outline the actions taken, or planned, to eliminate deficiencies, highlighting the most important improvements made during the year.

In the Hudson River Area, no significant deficiencies were reported.

In the Black River Area, no significant deficiencies were reported.

4. Describe the monitoring system installed by the agency to verify that corrective actions are taken. Discuss the extent to which IT systems are used to track corrective actions.

Following the identification of corrective action to be taken, the function requiring corrective action and due date are noted on the applicable

Visio chart. At this time, the ICO verifies the implementation of corrective action(s) and the control activity to assure the action remains effective.

The District continues to utilize several Microsoft system software products to assist in the overall tracking and monitoring of IC corrective actions. They include for the most part, Visio, Word and Excel.

5. Summarize specific actions the agency has taken to install a compliance testing program. Describe actions taken during 2012-13 to verify test results and expand the testing program.

The District performs “random transactional processing interviews” to review the highest risk functions throughout the year

District will continue to review/audit the highest risk functions throughout the year.

6. Describe measures instituted to sustain the effectiveness of the internal control program during 2012-13. Include information on reorganizations and other revisions in the program to enhance operations.

Given the “static” nature of the District’s overall mission and operations, efforts to sustain the effectiveness of the I/C program were limited to ongoing senior staff communications. I/C officer continues to meet with key process owners in an effort to heighten the awareness of controls in their respective areas.

7. Describe efforts agency/authority management has taken to coordinate and integrate the documentation and reporting of activities the Office of the State Comptroller’s *Standards for Internal Controls in New York State Government* recognize as supporting a good internal control system: evaluation, strategic planning and internal audit.

With specific regard to Districts effort to integrate the documentation and reporting of activities recognized as supporting a good internal control system, the District’s ICO assessed controls in each of the three (3) principal offices during 2012-2013 utilizing assessable units documentation.

From a strategic perspective, the District has developed Board approved mission statement, operational plans, and goals that reflect its Statutory mandate.

8. Describe efforts agency/authority management has taken to effectively communicate information within the organization. Information should be communicated to management and other employees who need it in a form and within a time frame that helps them to carry out their responsibilities. Communication is not an isolated internal control component. It affects every aspect of an organization’s operations and helps support its system of internal

control. The feedback from this communication network can help management evaluate how well the various components of the system of internal control are working.

The lion's share of I/C communication is disseminated among the District's Senior Staff, Board and key process leaders. Information necessary to advance the District's IC program is disseminated as required to all employees who need it to carry out their responsibilities.

- C. Make available to each officer and employee of the agency or authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such agency or authority shall be expected to comply along with detailed policies and procedures the employees are expected to adhere to in completing their work.** The statement should set the tone at the top. It should be issued periodically and emphasize the importance of effective internal controls to the agency or authority and the responsibility of each officer and employee for effective internal controls.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The District issues to each employee an Employee Policy Handbook which requires the employee to acknowledge receipt and the intent to read and understand the policies it contains. They include Substance Abuse, District Vehicle Usage, Sexual Harassment, Drug and Alcohol, Code of Ethics, and Computer Acceptable Use and Technology.

The District's website is utilized to communicate and serve as the repository of applicable policies and procedures.

- D. Designate an Internal Control Officer (ICO), who shall report to the head of the agency or authority or to their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item. The designation of the ICO should be communicated to all employees.**

The ICO works with appropriate personnel within the agency or authority to coordinate the internal control activities and to help ensure that the internal control program meets the requirements established by BPRM Item B-350. Although the ICO evaluates the adequacy of the internal control reviews performed by agency or authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the agency head in implementing and reviewing the agency's internal control program. This individual should have a broad knowledge of agency operations, personnel and policy objectives.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The Executive Director designated the District's Chief Fiscal Officer to be the Internal Controls Officer. This action was approved by Board resolution. The Chief Fiscal Officer also services as the Districts Secretary Treasurer pursuant to the Districts enabling legislation. This person is intimately familiar with the requirements established by BRPM Item B-350 and has full authority to execute and implement all of the requirements for an effective Internal Control Program. He possesses an extensive knowledge of the District's operations, personnel, and policies and procedures. His appointment has been communicated to all employees of the District.

Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Agencies and authorities should identify staff requiring internal control training and the depth and content of that training. Such education and training should be on-going with specific courses directed at line staff, middle managers and executive management. For organizations that have established internal audit functions, training and education should be offered on the appropriate role of the internal auditor within the organization's internal control system.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The District ICO provides monthly training to all senior staff during the District's monthly staff meeting. Staff is encouraged to attend NYSICA training events when available.

The Regulating Districts ICO attends many of the NYSICA conferences. Moreover, the ICO is most familiar with the Standards for Internal Controls and has been formerly trained in Six Sigma. The Executive Director has identified the balance of the Senior Staff as the initial staff requiring IC training. That Staff includes all managers of the Districts Assessable Units.

The Districts ultimate goal is to have all Sr. Staff attend formal IC training. In the intervening time, all staff will continue to familiarize themselves with the Standards.

Periodically evaluate the need for an internal audit (IA) function. If an IA function exists, it should be maintained in compliance with generally accepted professional auditing standards. Agencies on the Division of the Budget’s list of agencies required to establish IA functions – and those choosing to have an IA function – are required to comply with The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing* (see BPRM Item B-350 Section III “IA Responsibilities”).

As outlined in BPRM Item B-350, agencies and authorities are required to periodically evaluate the need to establish, maintain or modify an IA function utilizing the *Internal Audit Evaluation Criteria* (Attachment C). **Completed and attached**

Agencies concluding that an IA function is warranted should submit their evaluation to DOB as outlined in BPRM Item B-350. Periodically thereafter, agencies with IA functions should review current operations to determine whether the function should be altered or maintained.

Agencies concluding an IA function is not warranted should periodically reevaluate the need for such a function using Attachment C, especially when organizational, operating, fiscal, program, legal or personnel changes occur which affect the agency’s exposure to risk or which could otherwise change the results of the initial assessment.

Pursuant to BPRM Item B-350, agencies required to have – and those entities choosing to have – an internal audit unit should comply with The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. Therefore, IA units should comply with the guidance outlined below regarding organizational placement, independence and reporting.

1. Directors of Internal Audit (DIA) should report functionally to the agency head or audit committee and may report administratively to the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the agency head.
2. A current organizational chart should be available that identifies the placement of the IA unit, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under its purview.
3. The IA function should be independent of the ICO, but should work closely with the ICO. Limitations should be established on IC activities where those duties overlap. Agencies should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Furthermore, IA units should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).
4. Internal audit staff should complete an annual independence statement identifying actual/potential impairments to independence and notifying the DIA whenever a new actual/potential impairment arises.

At a minimum, DIAs should hold quarterly meetings with agency executive management and the audit committee, where applicable, to report on audit results. Final reports should be distributed to the agency head, executive deputy, auditee, ICO and the audit committee.

5. The DIA should assure that agency audit staff have the skills, knowledge and ability to perform the audit work required and that the size of the audit staff is appropriate given the size and complexity of the organization.
6. IA units should take steps to ensure sufficient audit resources are available given the size and complexity of the organization. This can be accomplished by exploring in-sourcing, outsourcing and sharing audit services.

For this requirement, the agency/authority is:

Not Applicable – This agency/authority does not have an IA function.

Fully Compliant

Partially Compliant

Not Compliant

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement by providing the following information:

1. A current organizational chart identifying the placement of the IA unit, the name and title of the IA director, other organizations/activities under the IA function's purview and the name and title of the person to whom the IA director reports.
2. A description of how the internal audit director's credentials, education and experience meets the minimum qualifications established in BPRM Item B-350.
3. A description of how continuing professional education requirements are met by the director and each staff member.
4. A description of how quality assurance review requirements are being met.
5. A description of how the IA function ensures that it does not compromise its independence if it is also responsible for other functions (i.e., internal control, information security or other duties).
6. A copy of your 2009-10 and 2010-11 internal and contract audit plans. (Please note: Dennis Whalen's memo of April 1, 2009 called on internal audit units to include the impact of Federal American Recovery and Reinvestment Act (ARRA) funding in their risk assessment and audit planning. If your agency is receiving ARRA funds, please be sure that your 2010-11 internal audit plan addresses this issue.)

7. Documentation pertaining to the risk-assessment utilized in formulating the 2010-11 audit plans.
8. An indication of which audits in the audit plan for FY 2009-10 were not conducted, and an explanation as to why they were not conducted.
9. An estimate of the cost savings to be achieved by virtue of implementing the recommendations contained in each conducted audit described in the FY 2009-10 audit plans and any audits that were conducted during that time period that were not in the audit plan. If it is not feasible to provide a cost estimate for savings, please identify process improvements, risk mitigation, fraud prevention or cost avoidance measures that result from implementation of such recommendations.
10. Identify the recommendations contained in the audits described in the FY 2009-10 audit plans that were not implemented, if any, and provide a full explanation why they were not implemented.
11. Identify the recommendations contained in final audits issued by the Office of State Comptroller between July 1, 2008 and March 31, 2010 that were not implemented, if any, and provide a full explanation why they were not implemented.

The Governor's Office of Taxpayer Accountability (OTA) and the Division of the Budget (DOB) will be conducting a review of these State agency and authority internal and contract audit plans and audit recommendations to assess (i) whether the audit plans are based on a documented risk assessment which captures areas for review that have the greatest risk exposure, (ii) the percentage of audits identified in each audit plan that were conducted, (iii) whether recommendations contained in audits were implemented, and any reasons for non-implementation, and (iv) cost savings and other benefits attributable to the audits. In addition, the OTA and DOB will assess whether recommendations contained in audits conducted by the Office of the State Comptroller were implemented, and any reasons for non-implementation.

2012-13INTERNAL CONTROL CERTIFICATION

Hudson River-Black River Regulating District

Agency/Authority Name

Mark M. Finkle

Agency Head/Chairperson Governing Board

350 Northern Boulevard, Albany, NY 12204

Agency/Authority Address

518-465-3491

Telephone Number

Richard J. Ferrara

Name of Internal Control Officer

518-465-3491

Telephone Number

rferrara@hrbrrd.com

Email Address of Internal Control Officer

I hereby certify the agency or authority is:

- Fully Compliant (Full compliance with all provisions)**
- Partially Compliant (Partial compliance with some or all provisions)**
- Not Compliant (Noncompliance with all provisions)**

With the New York State Governmental Accountability, Audit and Internal Control Act.

This certification is supported with detailed justification of actions taken and/or outlines specific actions needed to address areas of partial compliance or noncompliance as described in the preceding Internal Control Summary.

Signature/Agency Head or Chairperson of Governing Board

Date

To: The Board of the Hudson River-Black River Regulating District
 From: Robert Leslie, General Counsel
 Date: March 19, 2015
 Re: Annual Counsel's Report
 January 1, 2014 through December 31, 2014
 Compiled pursuant to Environmental
 Conservation Law (ECL) §15-2131(1)(c) and (2)

STATEMENT OF PETITIONS RECEIVED (ECL §15-2131(1)(c))

Niagara Mohawk Power Corporation, d/b/a National Grid v. State of New York, Office of the State Comptroller, Department of Environmental Conservation, and Board of Hudson River-Black River Regulating District

Supreme Court, County of Herkimer Index no.: 99338
 NYS Court of Claims

On July 25, 2014 Petitioner filed an Article 78 challenging the Regulating District's apportionment and/or assessments on petitioner's property for fiscal year 2014-15 resulting from what petitioner characterizes as the Regulating District's improper decision to treat petitioner's real property as real estate benefited by the reservoirs operated by the Regulating District. Petitioner further asserts that the petitioner's property has been unequally assessed; unlawfully and unconstitutionally apportioned and assessed; and misclassified for said apportionment and assessment purposes. The petition further alleges that the Regulating District's 2000-02, 2003-05, 2006-08, 2009-11 and 2012-2014 assessments against petitioner's real property were arbitrary and capricious and should therefore be declared null and void. The petitioner seeks that the apportionments and assessments be rescinded or reduced to \$0 and judgment exceeding \$6,000,000. Regulating District's Answer was filed on September 12, 2014.

On the same date, Niagara Mohawk filed a Notice of Intention to File a Claim in the New York State Court of Claims. The Court of Claims Notice asserts that: the Regulating District has not assessed all benefited parcels; the petitioner's parcels are not benefited parcels and therefore should not be assessed; the assessments require assesses to subsidize an illegal permit system; the assessments constitute an improper confiscation of petitioner's property; the Regulating District's apportionment, assessment and settlement with Erie Boulevard Hydropower, L.P. violates the commerce clause; the assessments and apportionments and disparate treatment of petitioner violates equal protection; and that the Regulating District continues to breach the Offer of Settlement.

OTHER MATTERS OF INTEREST (ECL§1-2131(2))

1. Freedom of Information Law (FOIL) Requests
 - a. The Regulating District received 7 FOIL requests during the reporting period.
 - b. The Regulating District processed each request in accordance with the Public Officers Law and the information sought, if available, was provided to the

requesting party in a manner consistent with the Regulating District's statutory obligations.

- c. The Regulating District granted 7 requests. Two (2) request(s) were denied because the records requested do not exist within HRBRRD files. There were no (0) appeal(s).

Respectfully Submitted,
Robert Leslie
General Counsel

HUDSON RIVER AREA

MAINTENANCE AND OPERATION

Facilities

In the Upper Hudson River basin, the Hudson River – Black River Regulating District operates and maintains the Great Sacandaga Lake reservoir and the Indian Lake reservoir, including the Conklingville Dam and the Indian Lake Dam.

Maintenance and Operation

Regulating District personnel maintained facilities at the Conklingville, Indian Lake and Sacandaga field offices. Activities included building maintenance and grounds maintenance.

The field staff maintained, repaired and operated the Regulating District marine equipment, motor vehicles, construction equipment, and small machinery.

Reservoir Maintenance and Operation

Regulating District personnel performed the following operation activities and routine maintenance:

- Dam, spillway, and outlet structure facility maintenance,
- Installation of shoreline stabilization and erosion control measures,
- Grounds maintenance at embankment dams,
- Posting of notice and trespassing signs,
- Removal and disposal of litter and debris found on reservoir lands,
- Operation and maintenance of precipitation gauges,
- Maintenance and operation of stream gauges,
- Clearing reservoir shoreline of stumps, driftwood and debris,
- Cutting and removal of downed tree.

Conklingville Dam staff performed routine maintenance work, including the reading and inspection of elevation gauges at Conklingville and Indian Lake Dam, and Stewarts Bridge, Hadley, and Indian River gauge.

The Regulating District collected meteorological and hydrological information at various locations within the Hudson River watershed. Data collection and precipitation station maintenance was performed in cooperation with the United States Geological Survey (USGS) and the National Weather Service (NWS). Meteorological and hydrological information collected by the Regulating District are published in National Weather Service and the United States Geological Survey documents and used by the NWS in the forecasting of flood conditions.

Collection of hydraulic data, and maintenance and operation of stream gauging stations on the Sacandaga and Hudson River watersheds, was performed in cooperation with the United States Geological Survey.

A website containing stream flow and reservoir elevation, as well as forecast reservoir releases is maintained by the Regulating District and made available to the public at <http://www.hrbrd.com>.

The Regulating District maintained an internet web page to provide additional public access to information about the Regulating District, and its operations, and links to river flow and reservoir elevation related web sites.

Great Sacandaga Lake Access Permit System

The Hudson River – Black River Regulating District Board adopted the current rules for the Access Permit System, entitled “Rules and Regulations Governing the Use, Operation, and Maintenance of Great Sacandaga Lake,” by resolution dated October 19, 1992. As required by the Regulating District’s enabling legislation, the Department of Environmental Conservation approved the current rules on July 13, 1992. The rules became effective on January 27, 1993.

The Regulating District issues permits for access to the Great Sacandaga Lake reservoir and buffer land in accordance with the Rules and Regulations.

Regulating District personnel performed the following activities:

- Administration of Access Permit System,
- Process permit renewals,
- Process new permit applications,
- Process work permits,
- Survey and delineation of permit areas,
- Preparation of permit stakes and signs,
- Identifying and field investigating property encroachments,
- Process State Environmental Quality Review (SEQR) work permits,
- Survey maintenance of 125 miles of State property line,
- Clearing of property line (taking line),
- Replacement / relocation of survey monuments

During the calendar year 2014, the Regulating District issued 139 new permits, 4,663 access permit renewals and 413 work permits. Revenue derived from the access permit system totaled \$418,804.

Regulating District field staff placed 249 tons of shoreline erosion protection stone (riprap), and repaired approximately 1,213 feet of shoreline erosion protection to minimize shoreline erosion.

Sacandaga field office personnel identified and investigated State of New York property encroachments and violations of the Regulating District's rules and regulations by reservoir access permit holders. Field office staff continually inspected the State property line (taking line) to locate, control, and eliminate property line encroachment problems.

The Regulating District continued its cooperation with the United States Army Corps of Engineers (ACE), New York State Department of Environmental Conservation (DEC), and the Adirondack Park Agency (APA) in control of various construction projects, proposed by reservoir access permit holders, which occur on reservoir land within the Regulating District's jurisdiction. Under an agreement with the Board, the Department of Environmental Conservation issues a "blanket permit" to the District for certain projects requiring Article 15 approval at the Great Sacandaga Lake. This permit can then be reissued to access permit holders for reservoir-related projects involving activities that do not exceed certain environmental threshold limits. This permitting process eliminates duplication of effort by both agencies. The Board refers projects, which may require approval by the Adirondack Park Agency or the Army Corp of Engineers, to the APA or ACE for jurisdictional determination and review, prior to Regulating District approval.

STATEMENT OF CONDITION AND OPERATION OF GREAT SACANDAGA LAKE

Reservoir Elevation

The daily average elevation of the Great Sacandaga Lake (Sacandaga Reservoir) on January 1, 2014 was 754.49 feet above mean sea level. During the period ending December 31, 2014, the reservoir elevation varied from a minimum of 748.21 feet on March 29, 2014, to a maximum of 770.65 feet on May 26, 2014. The reservoir elevation averaged approximately 1.0 feet above the long-term average on January 1, 2.4 feet above the long-term average on July 1, 2014 and averaged approximately 4.1 feet above the long-term average on December 31, 2014. The daily average elevation of the Great Sacandaga Lake on December 31, 2014 was 757.79 feet.

Figure 1 shows the elevation of the Great Sacandaga Lake during 2014, the historic and target elevation, and the mandated minimum operating elevation.

Precipitation and Inflow

Precipitation was approximately 117% of historic average during the first half of the year, and approximately 6% lower than historic average during the second half of 2014.

Snow surveys were conducted during the period January through April 2014. Snow-pack water content measured 78% of historic average in January and 96% of historic average in March.

Inflow during the period January through June 2014 was approximately 111% of historic average. Monthly average inflow for the months of July through December 2014 varied from approximately 49% to 184% of historic average.

Total inflow to the reservoir was 74.71 billion cubic feet for the year ending December 31, 2014, and was 108% of the average annual inflow of 68.99 billion cubic feet.

Table 1 - 3 detail the regulation of the Hudson River by the Great Sacandaga Lake and presents a summary of precipitation and snowfall, inflow, and regulation, respectively.

Figure 2 indicates the precipitation measured at Northville during the period January 1 to December 31, 2014. Figure 3 reflects the inflow to the reservoir during the period January 1 to December 31, 2014.

Reservoir Release and Storage

A total of 71.64 billion cubic feet of water was released from the reservoir during 2014. Daily water releases for the purpose of augmenting the natural Hudson River flow occurred during approximately 85% of the year. The release of water from the reservoir was suspended on approximately 6 occasions, for a total of approximately 31 days. The reservoir stored approximately 22.96 billion cubic feet of water during the spring refilling. In general, reservoir operation supplemented the flow in the Hudson River and provided base flow conditions consistent with the requirements of the Upper Hudson / Sacandaga River Offer of Settlement.

Figure 4 indicates the regulated flow of the Hudson River, below the confluence with the Sacandaga River, at Spier Falls.

Federal Energy Regulatory Commission

The Regulating District operates the Great Sacandaga Lake under the terms of the Upper Hudson / Sacandaga River Offer of Settlement and a license (P-12252-NY) from the Federal Energy Regulatory Commission. The Offer of Settlement establishes long-term environmental protection measures that will meet, and balance, the diverse power and non-power objectives of the parties involved. The Great Sacandaga Lake will remain a federally licensed project through 2042.

An annual safety inspection of the Conklingville Dam was conducted by Regulating District's Chief Engineer and Mr. Richard Deubert, P.E. of the Federal Energy Regulatory Commission on June 23, 2014.

STATEMENT OF CONDITION AND OPERATION OF INDIAN LAKE RESERVOIR

Reservoir Elevation

The daily average elevation of Indian Lake Reservoir on January 1, 2014 was 1642.78 feet above mean sea level. During the period ending December 31, 2014, the reservoir elevation varied from a minimum of 1637.60 feet on March 28, 2014, to a maximum of 1651.40 feet on June 17, 2014. The reservoir elevation averaged approximately 0.52 feet below the long-term average on January 1, 0.58 feet above the long-term average on July 1, and averaged approximately 0.69 feet above the long-term average on December 31. The daily average elevation of the Indian Lake Reservoir on December 31, 2014 was 1643.88 feet.

Figure 5 shows the historic average reservoir elevation and the elevation of the reservoir during 2014.

Precipitation and Inflow

Precipitation was approximately 19% above historic average during the first half of the year, and approximately 6% lower than historic average during the second half of 2014.

Snow surveys were conducted during the period January through April 2014. Snow-pack water content measured 3% below historic average at the end of January and 18% above historic average at the end of March.

Inflow during the period January through June 2014 was approximately 108% of historic average. Monthly average inflow for the months of July through December 2014 varied from approximately 53% to 148% of historic average.

Total inflow to the reservoir was 10.19 billion cubic feet for the year ending December 31, 2014, and was 101% of the average annual inflow of 10.13 billion cubic feet.

Figure 6 indicates the precipitation measured at Indian Lake Dam during the period January 1 to December 31, 2014. Figure 7 reflects the inflow to the reservoir during the period January 1 to December 31, 2014.

Reservoir Release and Storage

A total of 10.01 billion cubic feet of water was released from the reservoir during 2014. Daily water releases occurred during 100% of the year.

A minimum release of 188 cubic feet per second occurred during the on November 19, 2014. A maximum release of 805 cubic feet per second occurred on June 17, 2014.

An annual safety inspection of the Indian Lake Dam was conducted by Regulating District's Chief Engineer and engineers from the consulting engineering firm Bergman Associates on August 19, 2014.

TABLE 1
HUDSON RIVER - BLACK RIVER REGULATING DISTRICT

PRECIPITATION ON SACANDAGA WATERSHED

MONTH	CONKLINGVILLE		MAYFIELD	
	MONTHLY TOTAL	HISTORIC AVERAGE	MONTHLY TOTAL	HISTORIC AVERAGE
(INCHES)				
<u>2014</u>				
JANUARY	3.12	3.31	2.73	3.48
FEBRUARY	3.40	2.81	2.90	2.86
MARCH	3.68	3.70	3.38	3.71
APRIL	3.55	3.54	4.45	3.73
MAY	4.79	3.45	4.05	3.89
JUNE	6.19	3.61	7.51	3.80
JULY	5.15	3.54	6.54	3.65
AUGUST	3.73	3.74	4.23	3.90
SEPTEMBER	1.96	3.49	1.48	4.03
OCTOBER	3.41	3.46	2.32	3.80
NOVEMBER	2.56	3.66	2.74	3.75
DECEMBER	6.41	3.61	4.18	3.73
TOTAL (Year: Jan - Dec)	47.95	41.92	46.51	44.33

SACANDAGA WATERSHED SNOW SURVEY

DATE	AVGERAGE DEPTH OF SNOW	WATER CONTENT OF SNOW	
	(INCHES)	(INCHES)	(B.C.F.)
<u>2014</u>			
January 6 - 8	8.7	1.79	4.47
January 20 - 22	8.5	1.74	4.45
Feb 3 - 5	10.5	2.13	5.27
February 17 - 19	19.7	3.78	9.31
March 3 - 5	16.8	3.96	9.83
March 17 - 19	19.0	5.01	12.30
March 31 - April 2	18.0	5.63	13.85
April 7 - 9	12.2	3.82	11.19

TABLE 2
HUDSON RIVER - BLACK RIVER REGULATING DISTRICT

INFLOW TO GREAT SACANDAGA LAKE
(FORMERLY SACANDAGA RESERVOIR)

MONTH	INFLOW (B.C.F.)	HISTORIC AVERAGE INFLOW (B.C.F.)	PERCENT OF AVERAGE (%)
<u>2014</u>			
JANUARY	6.69	4.85	138
FEBRUARY	2.64	3.65	72
MARCH	3.05	9.42	32
APRIL	21.01	17.36	121
MAY	10.97	8.24	133
JUNE	8.17	3.93	208
JULY	4.09	2.23	184
AUGUST	2.49	1.53	163
SEPTEMBER	1.11	2.08	53
OCTOBER	1.95	4.00	49
NOVEMBER	3.15	5.84	54
DECEMBER	9.39	5.86	160
TOTAL	74.71	68.99	108

TABLE 3
HUDSON RIVER - BLACK RIVER REGULATING DISTRICT
REGULATION OF THE HUDSON RIVER - GREAT SACANDAGA LAKE
(FORMERLY SACANDAGA RESERVOIR)

MONTH	ELEVATION OF RESERVOIR WATER SURFACE (DAILY AVERAGE) (Feet M.S.L.) (4)	DAILY RELEASE (AVERAGE) (C.F.S.) (1)	SPIER FALLS COMPUTED NATURAL FLOW (AVERAGE) (C.F.S.) (2)	SPIER FALLS REGULATED FLOW (AVERAGE) (C.F.S.) (3)
<u>2014</u>				
JANUARY	752.07	3454	5939	6895
FEBRUARY	749.06	2195	2702	3807
MARCH	748.91	1066	2320	2247
APRIL	767.49	909	18229	11033
MAY	769.87	3190	10554	9647
JUNE	768.43	3807	6881	7535
JULY	766.16	2452	3054	3977
AUGUST	763.42	2022	3017	4110
SEPTEMBER	760.63	1576	1422	2572
OCTOBER	758.38	1642	2270	3185
NOVEMBER	755.70	2224	2755	3762
DECEMBER	757.79	2699	6705	5900

(1) This is the flow of the Sacandaga River at Stewart's Bridge near Hadley, N.Y.

(2) Includes Indian Lake Regulation; sum of GSL net inflow and Hudson River at Hadley.

(3) Sum of GSL release and Hudson River at Hadley.

(4) Daily average on last day of the month

Hudson River - Black River Regulating District

GREAT SACANDAGA LAKE

RESERVOIR ELEVATION JANUARY 2014 - DECEMBER 2014

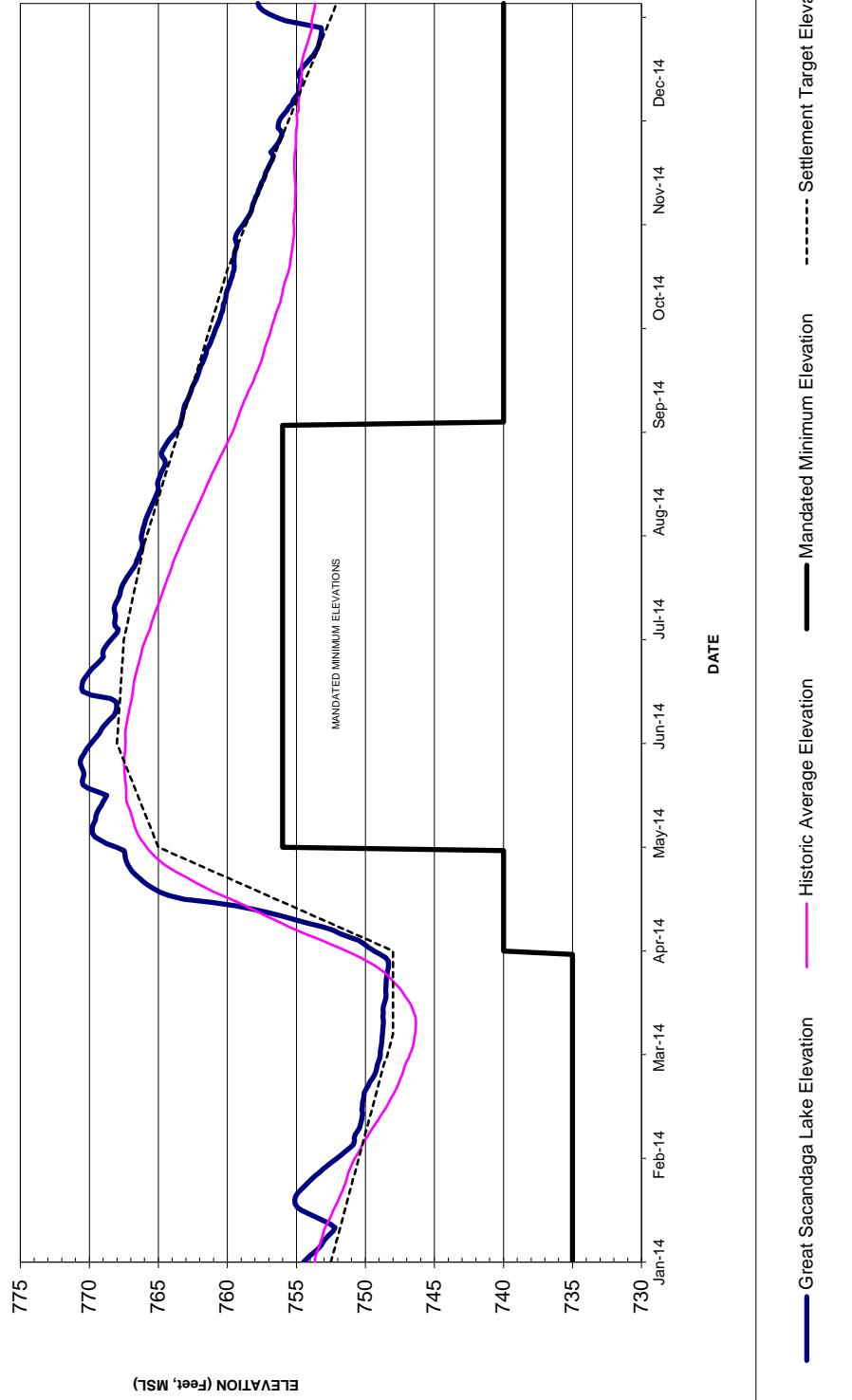


Figure 1

Hudson River - Black River Regulating District

GREAT SACANDAGA LAKE

PRECIPITATION JANUARY 2014 - DECEMBER 2014

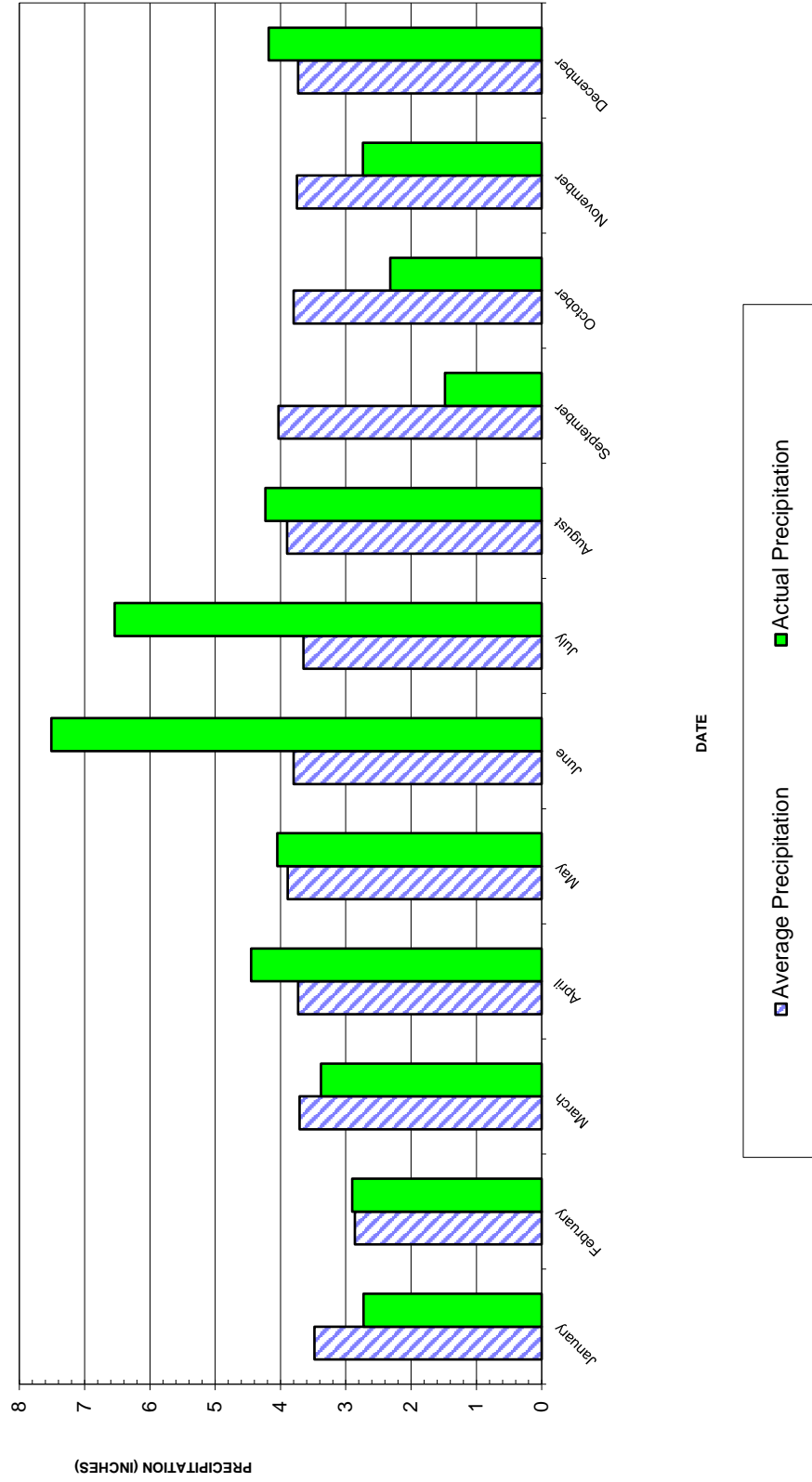


Figure 2

Hudson River - Black River Regulating District

GREAT SACANDAGA LAKE

INFLOW JANUARY 2014 - DECEMBER 2014

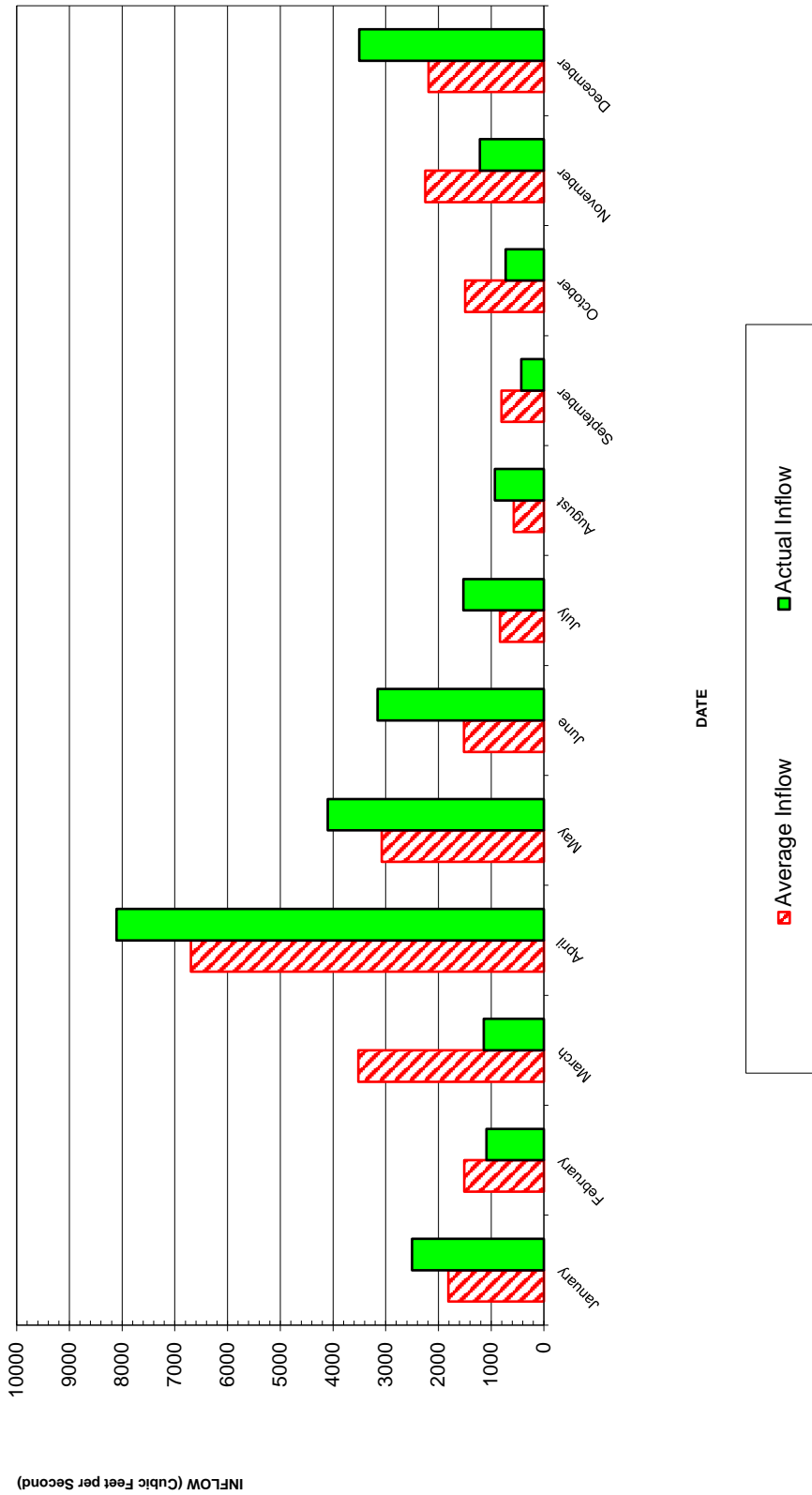


Figure 3

Hudson River - Black River Regulating District

GREAT SACANDAGA LAKE

HUDSON RIVER FLOW AT SPIER FALLS JANUARY 2014 - DECEMBER 2014

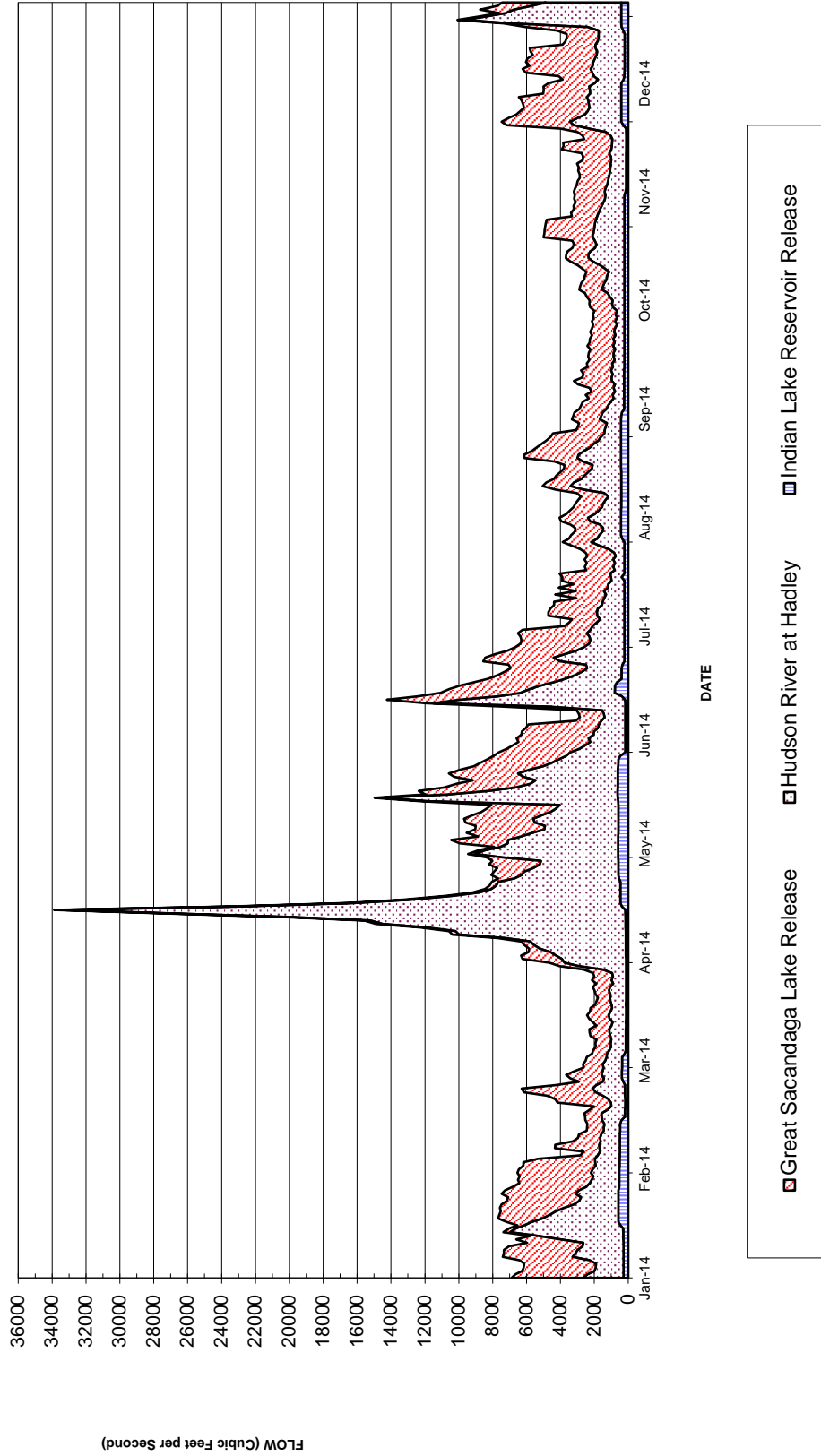


Figure 4

Hudson River - Black River Regulating District

INDIAN LAKE RESERVOIR

RESERVOIR ELEVATION JANUARY 2014 - DECEMBER 2014

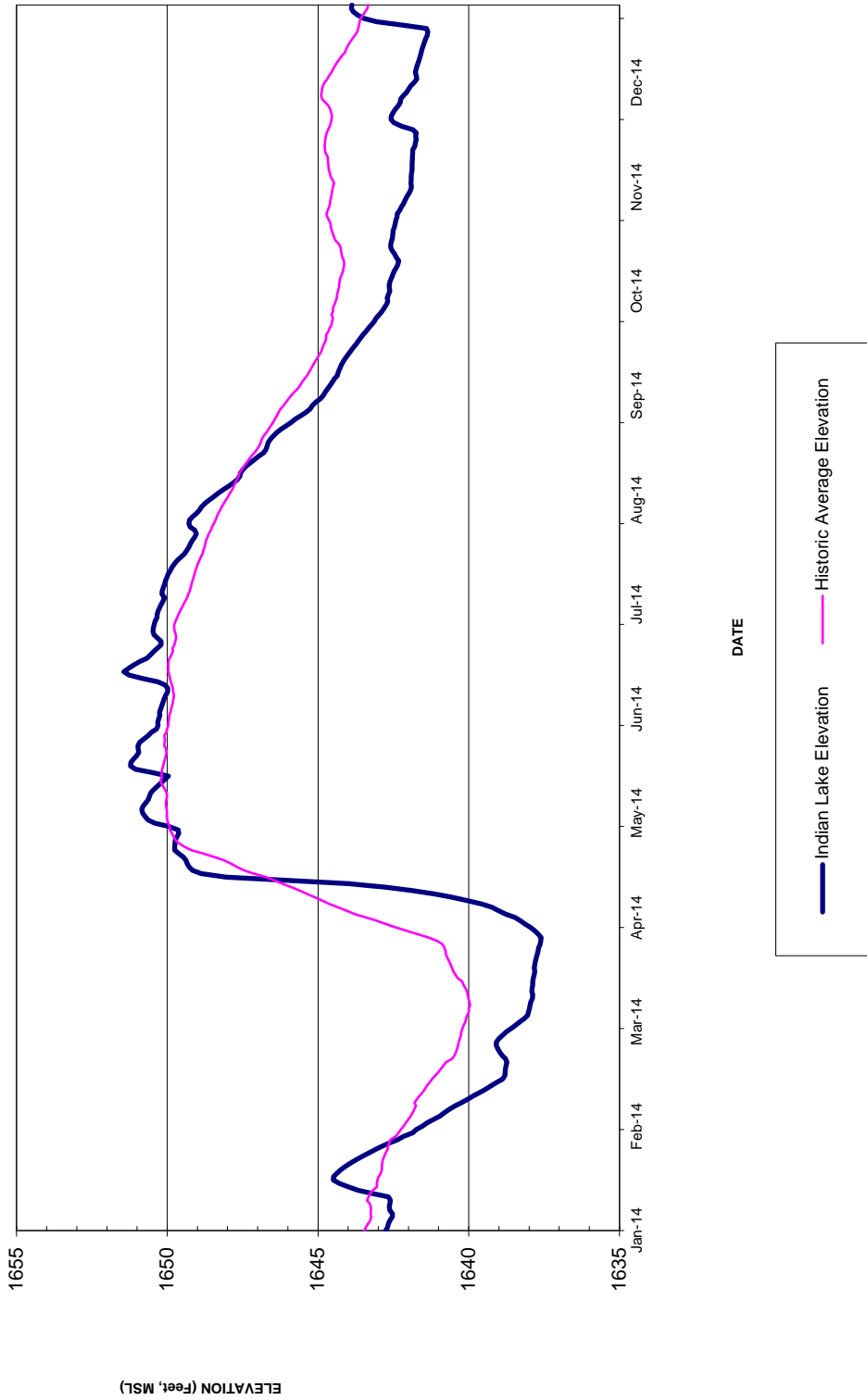


Figure 5

Hudson River - Black River Regulating District

INDIAN LAKE RESERVOIR

PRECIPITATION JANUARY 2014 - DECEMBER 2014

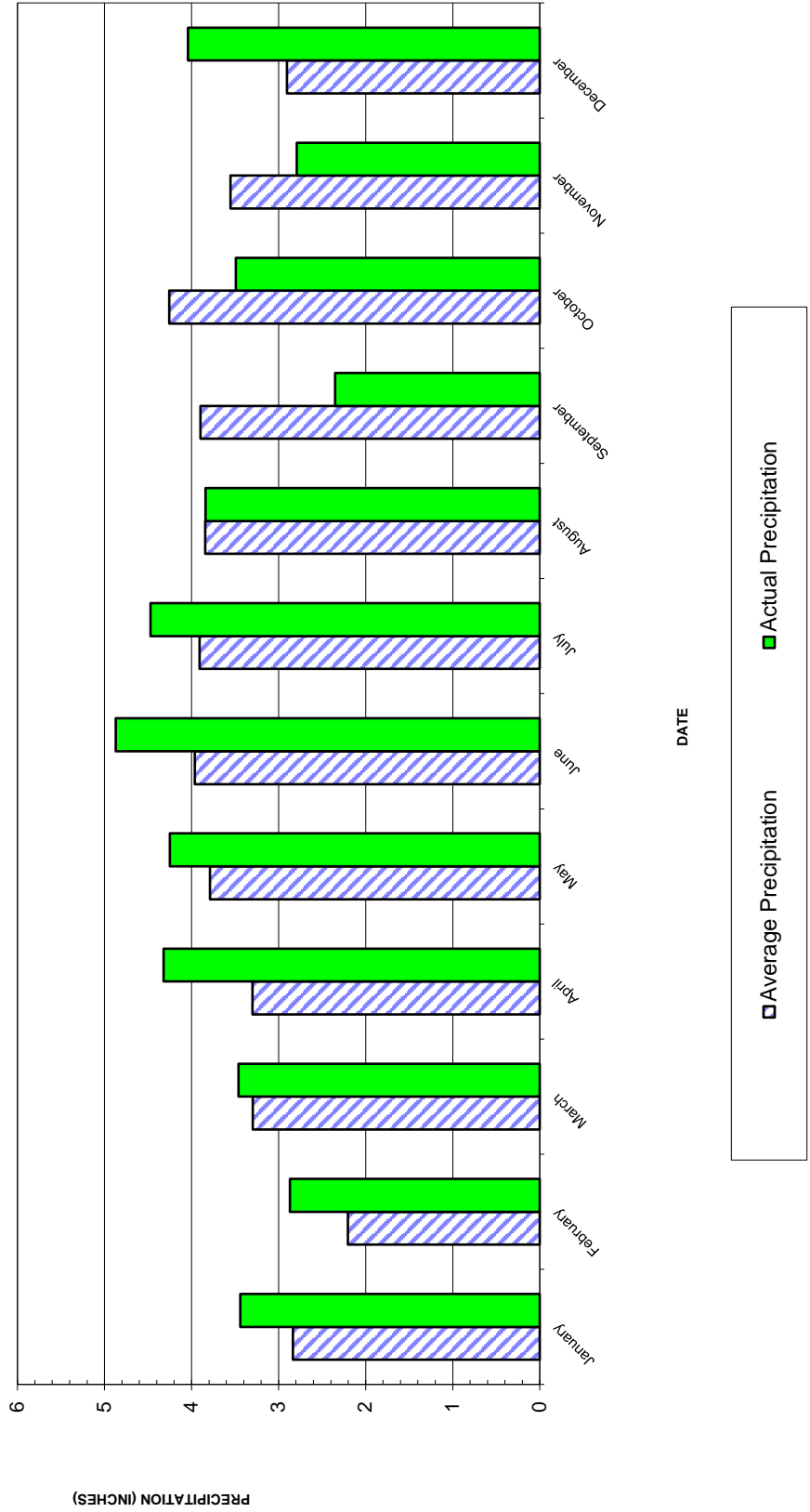
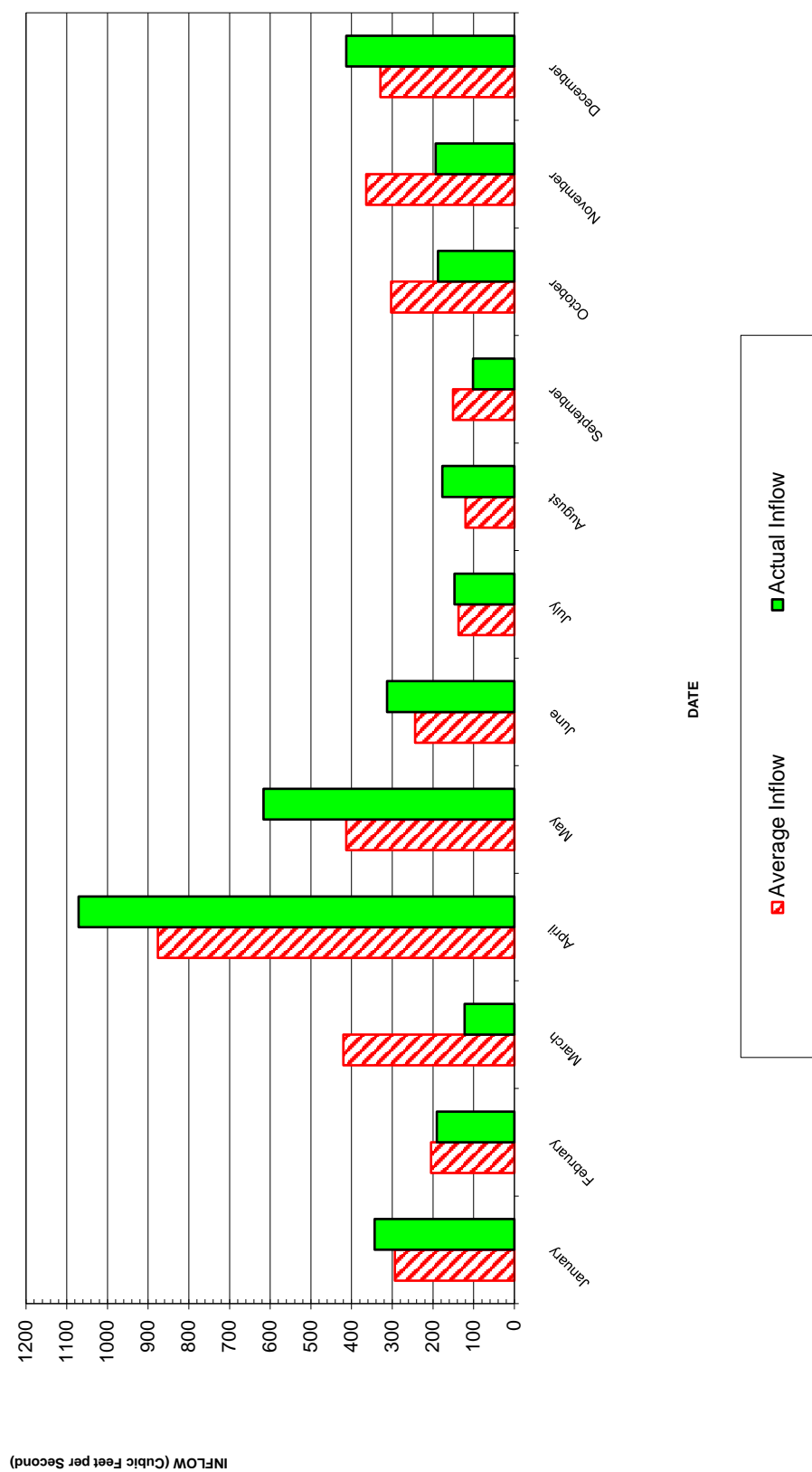


Figure 6

Hudson River - Black River Regulating District INDIAN LAKE RESERVOIR

INFLOW JANUARY 2014 - DECEMBER 2014



Net inflow including evaporation and transpiration

Figure 7

BLACK RIVER AREA

MAINTENANCE AND OPERATION

Facilities

In the Black River basin, the Hudson River – Black River Regulating District operates and maintains the Stillwater reservoir, Sixth Lake reservoir, and Old Forge reservoir, including the Stillwater Dam, Sixth Lake Dam, and the Old Forge Dam, as well as the Hawkinsville Dam.

Maintenance and Operation

Regulating District personnel maintained facilities at the Stillwater, Sixth Lake, Old Forge, Hawkinsville, Black River Field Office and Black River Area Office. Activities included building maintenance and grounds maintenance.

The field staff maintained, repaired and operated the Regulating District marine equipment, motor vehicles, construction equipment, small machinery and hand tools.

Black River Field Office staff performed routine maintenance work including the reading and inspection of elevation gauges at Stillwater Dam, Sixth Lake, Old Forge, McKeever, Hawkinsville, Boonville and Donnattsburg. Collection of hydrologic data, and maintenance and operation of stream gauging stations in the Black River Watershed on the Black, Beaver and Moose Rivers, as well as the Fulton Chain of Lakes, was performed in cooperation with the United States Geological Survey (USGS). Meteorological, precipitation, and hydrological information collected by the Regulating District is published in National Weather Service and USGS documents and is used by the NWS in the forecasting of flood conditions.

Reservoir Maintenance and Operation

Regulating District personnel performed the following operation activities and routine maintenance:

- Grounds maintenance at embankment dams
- Daily observations and data collection, dam safety inspections
- Posting of notice, safety warning, and no trespassing signs
- Removal and disposal of litter and debris found on reservoir lands
- Vegetation maintenance, control and removal at dams and spillways
- Maintenance and repair of safety equipment and structures
- Maintenance of danger buoys and log booms
- Maintenance and improvements at ten Regulating District buildings
- Access road repairs

Field staff placed crushed gravel on the mile long right-of-way the District maintains on the Necessary Dam Road. Regulating District staff filled potholes, built up low areas, and shaped and crowned the roadbed. Additionally, the Regulating District maintained the 1/8th mile road from

the Evergreen Bridge to the North Dike area adjacent to the Stillwater Dam, including the placement of gravel, shaping and forming the road surface. Culverts on both roads were kept clear and maintained.

Regulating District personnel also responded to power outages and unscheduled shutdowns of the Stillwater hydroelectric plant adjacent to the Regulating District's dam, operated gates at the dam to provide water to down-river beneficiaries until the hydroelectric facility was available to discharge water.

Daily maintenance was performed including daily dam safety observations, reservoir elevation readings and changes in release of water as directed by the Chief Engineer. Piezometer and weir measurements were taken at a frequency which is dependent upon the reservoir elevation.

Regulating District staff participated in workplace, and health and safety training.

Daily elevation records were maintained to provide weekly and monthly tables and graphs that compare the daily elevations to the target elevations and the long-term average elevations.

STATEMENT OF CONDITION AND OPERATION OF STILLWATER RESERVOIR

Reservoir Elevation

The daily average elevation of the Stillwater Reservoir on January 1, 2014 was at 1672.85 feet. During the year ending December 2014, the reservoir elevation varied from a minimum of 1663.48 feet on March 30, 2014, to a maximum of 1678.75 feet on June 29, 2014. The reservoir elevation averaged approximately 2.18 feet above the long-term average on January 1, 1.51 feet above the long-term average on July 1, and approximately 1.92 feet below the long-term average on December 31, 2014. The daily average elevation of the Stillwater Reservoir on December 31, 2014 was 1668.62 feet.

Figure 1 shows the elevation of Stillwater Reservoir during 2014, the historic average and operation elevation.

Precipitation and Inflow

Precipitation was approximately 23% above historic average during the first half of the year, and approximately 4% below the historic average during the second half of 2014.

Snow surveys were conducted during the period January through April 2014. Snow-pack water content measured 104% of historic average at the end of January and 209% of historic average at the end of March.

Inflow during the period January through June 2014 was approximately 106% of historic average. Daily average inflow for the months of July through December 2014 varied from approximately 61% to 124% of historic average.

Total inflow to the reservoir was 14.05 billion cubic feet for the year ending December 2014, which was 101% of the average annual inflow of 13.92 billion cubic feet.

Table 1 - 3 detail the regulation of the Black River by the Stillwater Reservoir and presents a summary of precipitation and snowfall, inflow, and regulation, respectively.

Figure 2 indicates the precipitation measured at Stillwater during the period January 1, to December 31, 2014. Figure 3 reflects the inflow to the reservoir during the period January to December 31, 2014.

Reservoir Release and Storage

A total of 14.85 billion cubic feet of water was released from the reservoir during 2014. Daily water releases occurred during approximately 93% of the year. The release of water from the reservoir was suspended on three occasions, for a total of approximately 24 days. The reservoir stored approximately 3.11 billion cubic feet of water during the spring refilling.

Figure 4 indicates the regulated flow of the Black River at Watertown.

Federal Energy Regulatory Commission

The Regulating District operates the Stillwater Dam subject to license exemption P-6743-NY from the Federal Energy Regulatory Commission. An annual safety inspection of the Stillwater Dam was conducted the Regulating District's Chief Engineer and by Ms. Dolores Reyes and Mr. Nicholas Agnoli of the Federal Energy Regulatory Commission on August 12, 2014.

STATEMENT OF CONDITION AND OPERATION OF SIXTH LAKE RESERVOIR

Reservoir Operation

The elevation of Sixth Lake Reservoir on January 1, 2014 was 1782.76 feet. During the year ending December 2014, the reservoir elevation varied from a minimum of 1780.04 feet on February 21, 2014, to a maximum of 1786.26 feet on May 25, 2014. On December 31, 2014 the reservoir elevation was 1782.13 feet.

Figure 5 represents the reservoir elevation during the reporting year.

Precipitation and Inflow

Precipitation was approximately 27% above historic average during the first half of the year, and approximately 96% of historic average during the second half of 2014.

Total inflow to the reservoir was 1.53 billion cubic feet for the year ending December 2014.

Figure 7 indicates the precipitation that occurred at Sixth Lake Reservoir during the period January 1, 2014 to December 31, 2014.

Reservoir Release and Storage

A total of 1.55 billion cubic feet of water was released from the reservoir during 2014. Daily water releases occurred during approximately 87% of the year. The release of water from the reservoir was suspended from March 11 to May 14, for a total of approximately 46 days. The reservoir stored approximately 0.15 billion cubic feet of water during the spring refilling.

Maintenance

During the year staff completed several maintenance and repair projects at the gate house.

Daily maintenance was performed including cleaning of debris and wildlife from trash racks, ice removal from gate intake area, daily reservoir elevation readings, and gate changes as directed by the Chief Engineer.

The Chief Engineer performed an annual dam safety inspection. The Department of Environmental Conservation Division Dam Safety conducted an inspection on October 2, 2014.

STATEMENT OF CONDITION AND OPERATION OF OLD FORGE RESERVOIR

Reservoir Operation

The elevation of Old Forge Reservoir on January 1, 2014 was 1704.68 feet. During the year the reservoir elevation varied from a minimum of 1703.03 feet on March 8, 2014, to a maximum of 1707.09 feet on October 18, 2014. On December 31, 2014 the reservoir elevation was 1704.36 feet.

Figure 5 represents the reservoir elevation during the reporting year.

Precipitation and Inflow

Precipitation was approximately 31% above historic average during the first half of the year, and approximately 99% of historic average during the second half of 2014.

Total inflow to the reservoir was 3.59 billion cubic feet for the year ending December 2014.

Figure 7 indicates the precipitation that occurred at Old Forge Reservoir during the period January 1, 2014 to December 31, 2014.

Reservoir Release and Storage

A total of 3.62 billion cubic feet of water was released from the reservoir during 2014. Daily water releases occurred during approximately 91% of the year. The release of water from the reservoir was suspended from March 11 to May 30, for a total of approximately 32 days. The reservoir stored approximately 0.51 billion cubic feet of water during the spring refilling.

Maintenance

During the year staff completed several maintenance and repair projects at the gate house.

Daily maintenance was performed including cleaning of debris and wildlife from trash racks, ice removal from gate intake area, daily reservoir elevation readings and gate changes as directed by the Chief Engineer. Inspection, maintenance and reporting of the downstream river gauge were also performed.

The Chief Engineer performed an annual dam safety inspection. The Department of Environmental Conservation Division Dam Safety conducted an inspection on September 24, 2013.

STATEMENT OF CONDITION AND OPERATION OF HAWKINSVILLE DAM

Reservoir Operation

The Hawkinsville Dam is operated as run-of-river facility. No management of the water impounded by the dam is required. The elevation of the Black River upstream of the dam is controlled by the discharge characteristics of a 300 foot long spillway. Impoundment elevation varies with the flow of the Black River. No storage capacity for flood protection or augmentation is available at the dam.

Maintenance

Routine maintenance and inspection activities occurred throughout the reporting year by the Area Administrator and maintenance staff. No major repairs or maintenance were necessary during the year.

STATEMENT OF OPERATION OF BLACK RIVER AREA OFFICE

District personnel at the Black River Area Office in Watertown performed the following administrative duties in support of the Black River Administrator and field personnel at the Black River Field Office:

- On a daily basis, receive data pertaining to reservoir elevations, water releases and weather observations; then record and transmit information to the Chief Engineer
- On a weekly basis, collect precipitation data from observers at Beaver Falls, Big Moose, Black River, Brown's Falls, Copenhagen, Eagle Bay, Hooker, Highmarket, Lowville, Old Forge, Stillwater and Taylorville; then compile and transmit the information to the National Weather Service. Coordinate any equipment repairs and supply needs of the weather observers with NWS.
- Monitor equipment function and notify USGS of any problems.
- Keep spreadsheets for historical records of: reservoir elevations, stream flow, piezometer readings, precipitation, pH data and snow depth data
- Review piezometer data received from the Black River Field Office and transmit to the Operations Engineer.
- Communicate with Stillwater Hydro facility operating personnel regarding release changes at their hydroelectric plant at the Stillwater Reservoir as directed by the Chief Engineer. Coordinate changes with the Black River Field Office personnel. Notify Brookfield Renewable Power of reservoir release changes.
- Communicate with the gatekeepers at Old Forge and Sixth Lake regarding gate changes requested by the Chief Engineer.

TABLE 1
HUDSON RIVER - BLACK RIVER REGULATING DISTRICT

PRECIPITATION ON BLACK RIVER WATERSHED

MONTH	STILLWATER RES.		SIXTH LAKE		OLD FORGE	
	MONTHLY TOTAL	HISTORIC AVERAGE	MONTHLY TOTAL	HISTORIC AVERAGE	MONTHLY TOTAL	HISTORIC AVERAGE
(INCHES)						
<u>2014</u>						
JANUARY	4.29	3.63	3.51	3.58	5.59	4.30
FEBRUARY	2.46	2.84	2.81	2.57	3.46	3.02
MARCH	3.54	3.29	3.60	3.49	3.73	3.68
APRIL	4.53	3.48	4.00	3.44	4.84	3.78
MAY	5.70	4.44	6.08	3.89	7.05	4.54
JUNE	6.90	4.54	6.55	3.92	6.60	4.50
JULY	6.50	4.85	5.43	4.52	5.22	4.32
AUGUST	2.44	4.66	3.64	3.98	2.65	4.35
SEPTEMBER	2.87	5.07	2.91	4.23	3.25	4.81
OCTOBER	7.36	5.08	5.27	4.49	7.11	5.01
NOVEMBER	3.84	4.24	3.24	4.11	3.87	4.60
DECEMBER	3.76	3.93	3.58	3.61	4.82	4.24
TOTAL	54.19	50.05	50.62	45.83	58.19	51.15
(Year: Jan. - Dec.)						

BLACK RIVER WATERSHED SNOW SURVEY

DATE	SURVEY DATA		HISTORIC AVERAGE	
	SNOW DEPTH (INCHES)	WATER CONTENT (INCHES)	SNOW DEPTH (INCHES)	WATER CONTENT (INCHES)
<u>2014</u>				
January 6 - 8	12.4	3.3	12.2	2.5
January 20 - 22	13.8	3.3	15.0	3.2
Feb 3 - 5	18.0	4.6	18.3	4.3
February 17 - 19	25.1	6.0	21.0	5.1
March 3 - 5	23.9	6.2	21.7	6.0
March 17 - 19	30.2	8.9	20.4	6.2
March 31 - April 2	27.9	9.2	12.6	4.4
April 7 - 9	17.5	7.5	12.5	4.3

TABLE 2
HUDSON RIVER - BLACK RIVER REGULATING DISTRICT
INFLOW TO STILLWATER RESERVOIR

MONTH	INFLOW (B.C.F.)	HISTORIC AVERAGE INFLOW (B.C.F.) (1)	PERCENT OF AVERAGE (%)
<u>2014</u>			
JANUARY	1.44	1.25	115
FEBRUARY	0.56	0.81	69
MARCH	0.54	1.48	36
APRIL	3.22	2.52	128
MAY	1.96	1.44	136
JUNE	1.16	0.86	134
JULY	0.82	0.67	124
AUGUST	0.58	0.67	86
SEPTEMBER	0.39	0.64	61
OCTOBER	1.03	1.03	100
NOVEMBER	1.08	1.32	82
DECEMBER	1.28	1.25	103
TOTAL	14.05	13.92	101

(1) Period of Record 1986 - 2011

TABLE 3
HUDSON RIVER - BLACK RIVER REGULATING DISTRICT
REGULATION OF THE BLACK RIVER - STILLWATER RESERVOIR

MONTH	ELEVATION OF RESERVOIR WATER SURFACE (DAILY AVERAGE) (Feet M.S.L.) (3)	MONTHLY RELEASE (AVERAGE) (C.F.S.)	WATERTOWN COMPUTED NATURAL FLOW (AVERAGE) (C.F.S.) (1)	WATERTOWN REGULATED FLOW (AVERAGE) (C.F.S.) (2)
<u>2014</u>				
JANUARY	1674.16	429	6687	6580
FEBRUARY	1669.95	599	2764	3140
MARCH	1663.55	588	2364	2750
APRIL	1677.11	201	16283	15240
MAY	1678.54	600	7621	7490
JUNE	1678.72	429	5119	5100
JULY	1675.70	600	2778	3070
AUGUST	1672.10	525	2630	2940
SEPTEMBER	1668.81	395	1515	1760
OCTOBER	1670.09	300	4105	4020
NOVEMBER	1668.28	535	4460	4580
DECEMBER	1668.62	454	6085	6060

(1) Watertown flow minus net reservoir augmentation (release minus inflow).

(2) Black River flow at Watertown (VanDuzee Street gauge).

(3) Daily average on last day of the month

Hudson River - Black River Regulating District

STILLWATER RESERVOIR

RESERVOIR ELEVATION JANUARY 2014 - DECEMBER 2014

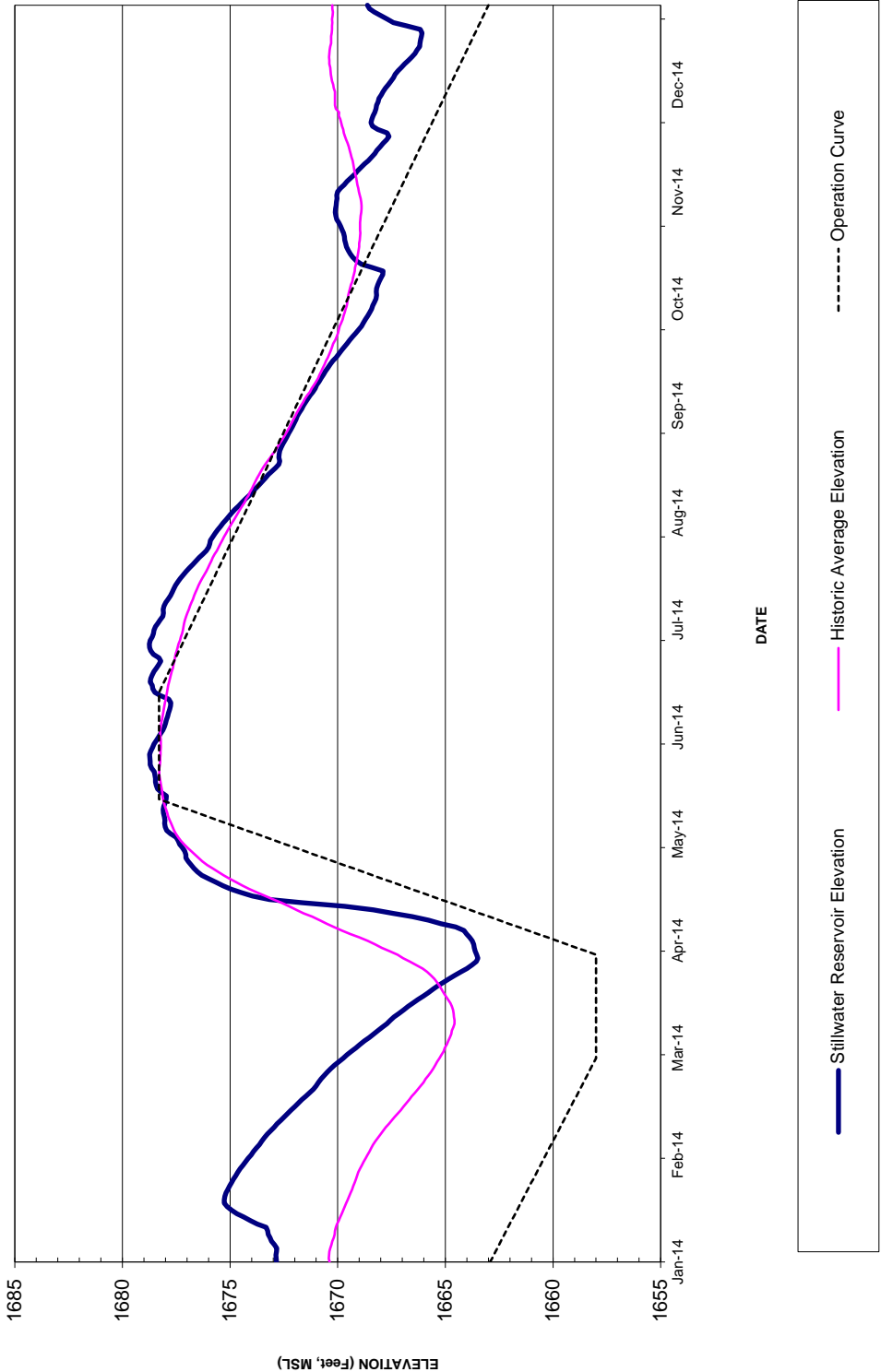


Figure 1

Hudson River - Black River Regulating District

STILLWATER RESERVOIR

PRECIPITATION JANUARY 2014- DECEMBER 2014

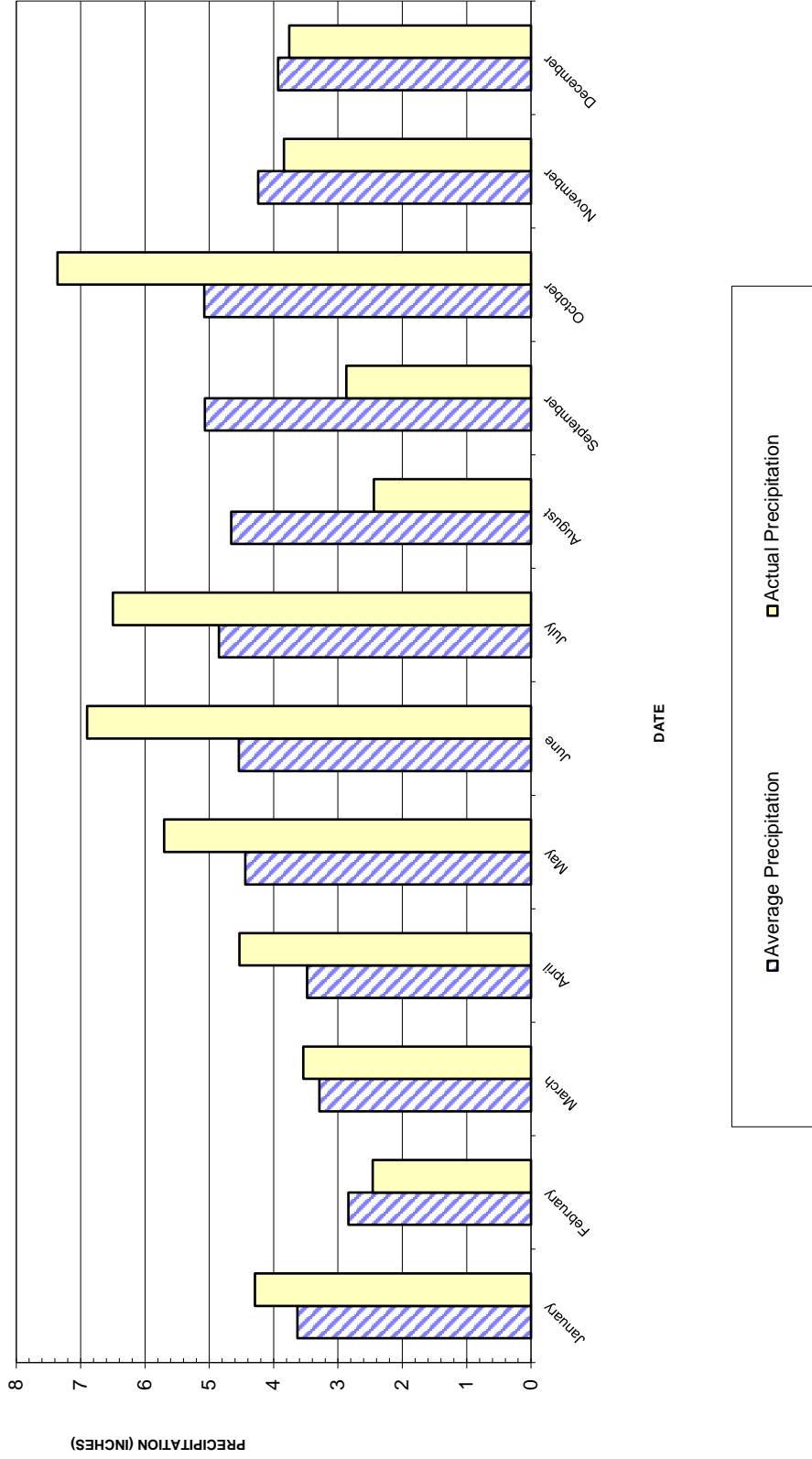


Figure 2

Hudson River - Black River Regulating District

STILLWATER RESERVOIR

INFLOW JANUARY 2014 - DECEMBER 2014

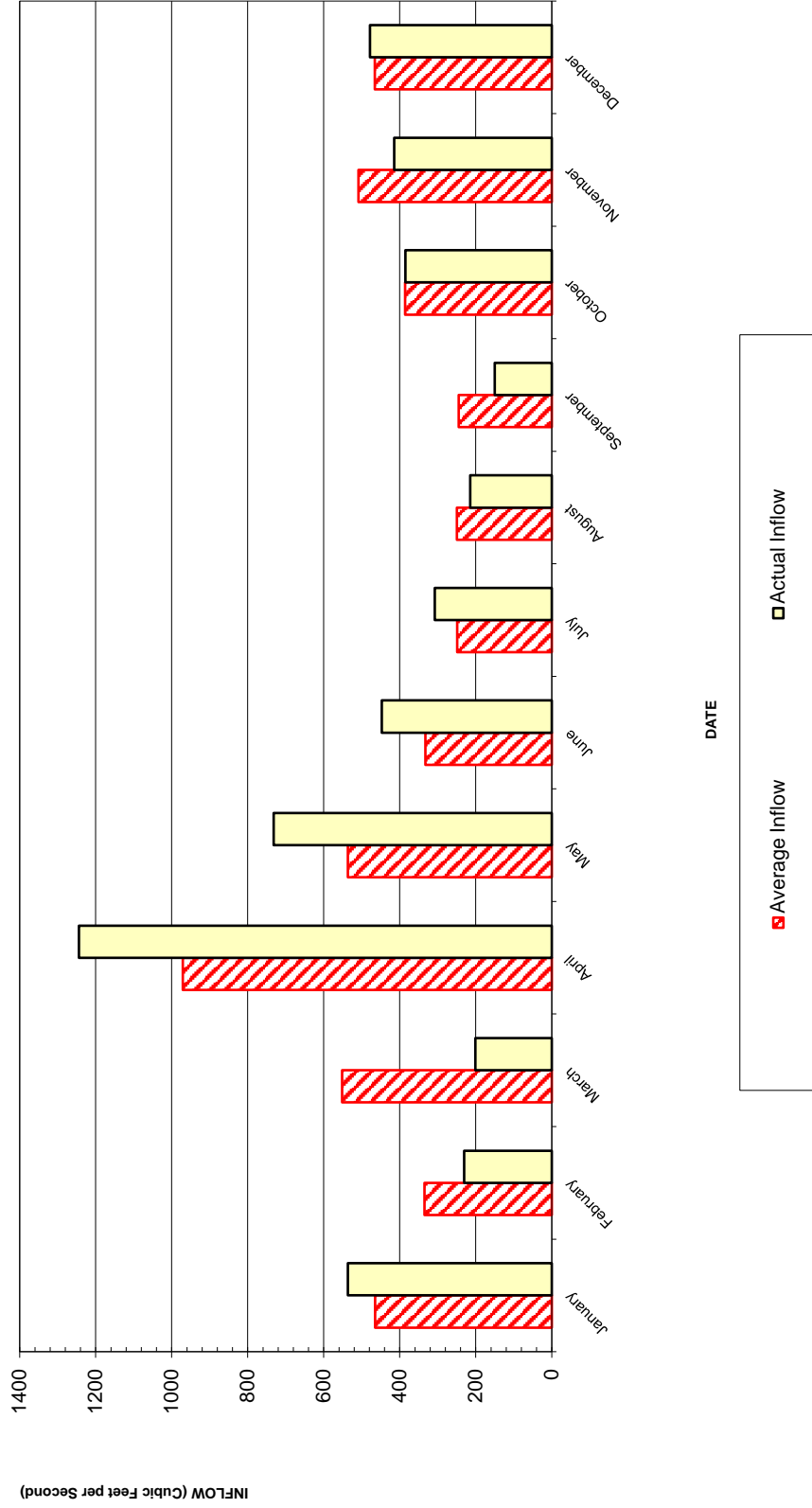


Figure 3

Hudson River - Black River Regulating District

STILLWATER RESERVOIR

BLACK RIVER FLOW AT WATERTOWN JANUARY 2014 - DECEMBER 2014

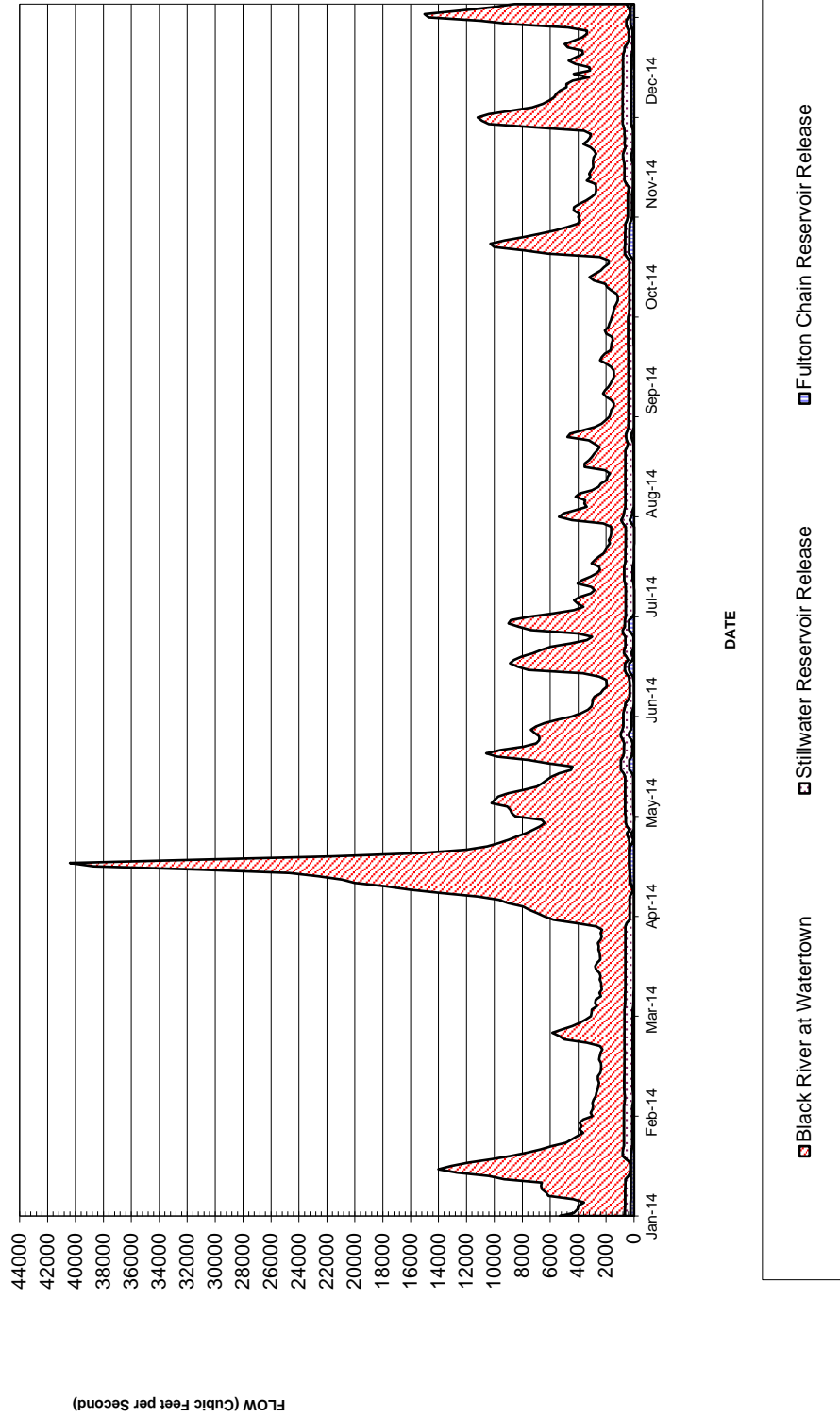


Figure 4

Hudson River - Black River Regulating District

SIXTH LAKE RESERVOIR

RESERVOIR ELEVATION JANUARY 2014 - DECEMBER 2014

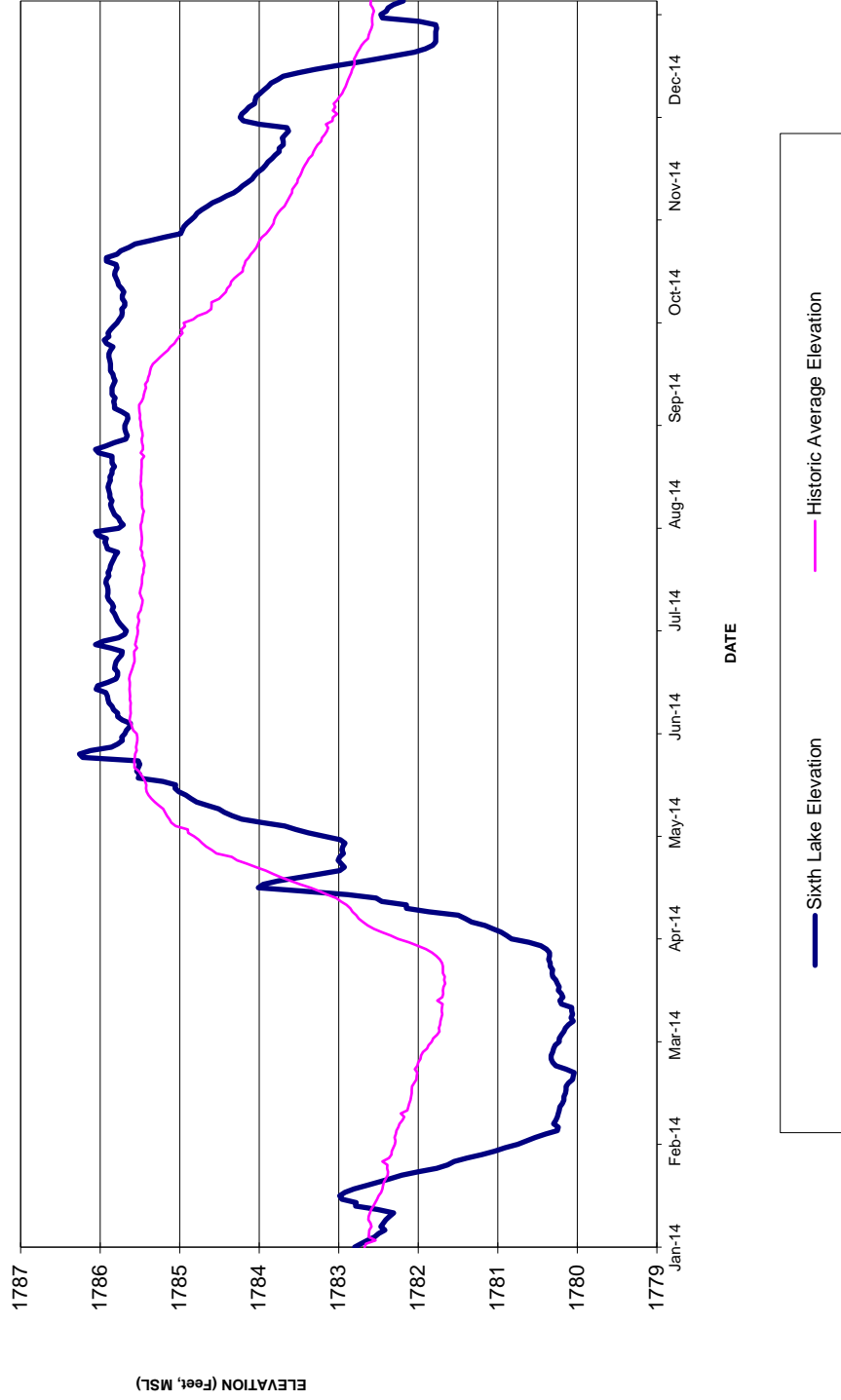


Figure 5

Hudson River - Black River Regulating District

OLD FORGE RESERVOIR

RESERVOIR ELEVATION JANUARY 2014 - DECEMBER 2014

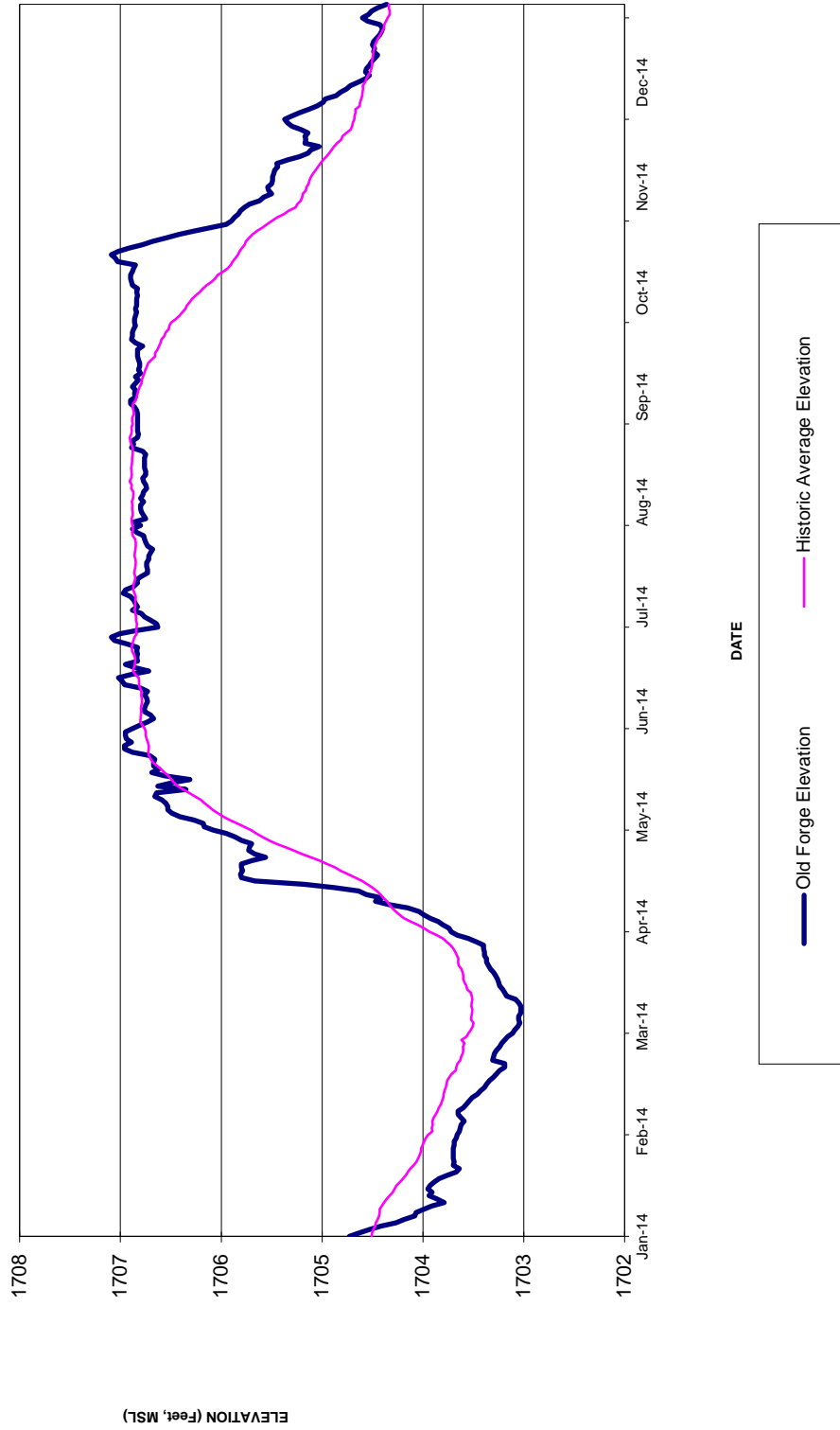


Figure 6

Hudson River - Black River Regulating District

FULTON CHAIN RESERVOIRS

PRECIPITATION JANUARY 2014 - DECEMBER 2014

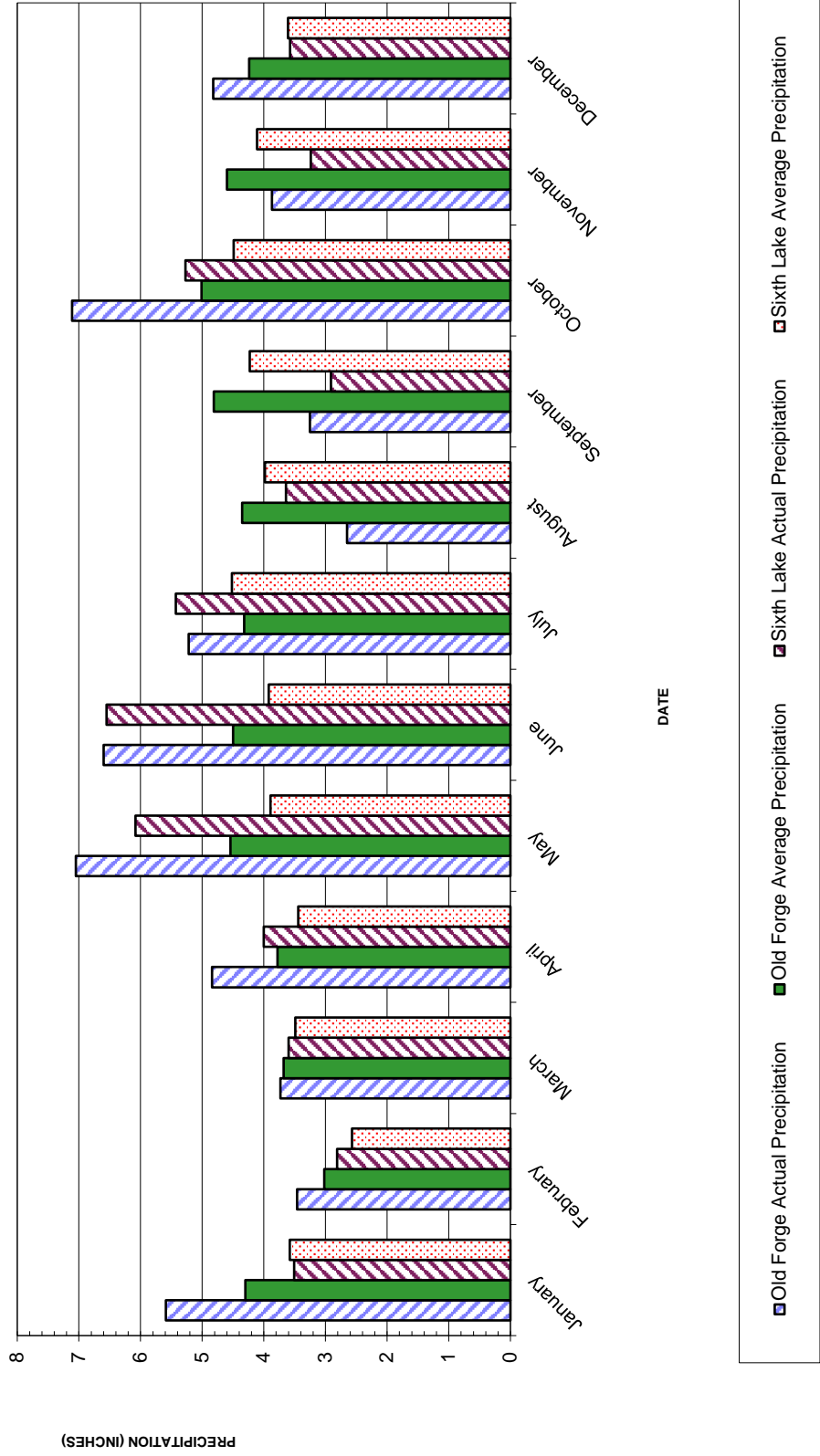


Figure 7

RESOLUTIONS ----- 2014**2014 ORGANIZATIONAL MEETING**

- 14-01-01 RESOLUTION APPROVING BUDGET & FINANCIAL PLAN REQUIRED PURSUANT TO SECTION 2801 OF PUBLIC AUTHORITIES LAW
- 14-02-01 RESOLUTION TO AMEND THE HUDSON RIVER-BLACK RIVER REGULATING DISTRICT VEHICLE USE POLICY
- 14-03-01 RESOLUTION TO NAME JOHN HODGSON ADMINISTRATOR IN THE BLACK RIVER AREA OF THE HUDSON RIVER-BLACK RIVER REGULATING DISTRICT AND TO DEVOLVE UPON THE CHIEF FISCAL OFFICER CERTAIN DUTIES OF THE BLACK RIVER AREA ADMINISTRATOR
- 14-04-01 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF THE REGULAR MEETING FOR MARCH 11, 2014 BOARD MEETING
- 14-05-03 RESOLUTION TO APPROVE A FIFTEENTH AMENDMENT TO THE RETAINER AGREEMENT FOR LEGAL SERVICES IN CONNECTION TO ONGOING LITIGATION WITH ERIE BOULEVARD HYDROPOWER, L.P. AND NIAGARA MOHAWK POWER CORPORATION
- 14-06-03 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF THE REGULAR MEETING FOR APRIL 8, 2014 BOARD MEETING
- 14-07-04 RESOLUTION TO ACCEPT BERGMANN ASSOCIATE'S PROPOSAL TO COMPLETE INDIAN LAKE FIRST ENGINEERING ASSESSMENT
- 14-08-04 RESOLUTION TO SATISFY ANNUAL REVIEW AND APPROVAL OF THE REGULATING DISTRICT'S INVESTMENT POLICY
- 14-09-04 RESOLUTION TO SATISFY ANNUAL REVIEW AND APPROVAL OF THE REGULATING DISTRICT'S PROCUREMENT POLICY
- 14-10-04 RESOLUTION TO ANNUALLY REVIEW AND APPROVE THE REGULATING DISTRICT'S DISPOSITION OF PROPERTY GUIDELINES PURSUANT TO SECTION 2896(1) OF THE PUBLIC AUTHORITIES LAW
- 14-11-04 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF THE REGULAR MEETING FOR MAY 13, 2014 BOARD MEETING
- 14-12-05 RESOLUTION TO AWARD AUDIT SERVICES WORK TO KBL, LLP

RESOLUTIONS ----- 2014

- 14-13-05 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF THE REGULAR MEETING FOR JUNE 10, 2014 BOARD MEETING
- 14-14-06 RESOLUTION TO AWARD THE WORK TO PERFORM CONKLINGVILLE DAM THIRD PART 12 INDEPENDENT CONSULTANT SAFETY INSPECTION TO GEI CONSULTANTS INC., PC
- 14-15-06 RESOLUTION TO AMEND HDR PROPOSAL TO PERFORM STILLWATER DAM BREACH ANALYSIS
- 14-16-06 RESOLUTION TO AWARD THE REGULATING DISTRICT'S INSURANCE PROGRAM FOR POLICY YEARS JULY 1, 2014 THROUGH JUNE 30, 2017
- 14-17-06 RESOLUTION TO APPROVE INSURANCE PROPOSAL FOR POLICY YEAR JULY 1, 2014 THROUGH JUNE 30, 2015
- 14-18-06 RESOLUTION TO APPROVE THE ANNUAL ASSESSMENT FOR THE OPERATION AND MAINTENANCE OF STORAGE RESERVOIRS IN THE BLACK RIVER AREA FOR THE THIRD YEAR (JULY 1, 2014 – JUNE 30, 2015) OF THE THREE YEAR BUDGET PERIOD BEGINNING JULY 1, 2012
- 14-19-06 RESOLUTION TO APPROVE THE ANNUAL ASSESSMENT FOR THE OPERATION AND MAINTENANCE OF STORAGE RESERVOIRS IN THE HUDSON RIVER AREA FOR THE THIRD YEAR (JULY 1, 2014 – JUNE 30, 2015) OF THE THREE YEAR BUDGET PERIOD BEGINNING JULY 1, 2012
- 14-20-06 RESOLUTION TO APPROVE THE STATE SHARE FOR THE OPERATION AND MAINTENANCE OF STORAGE RESERVOIRS IN THE HUDSON RIVER AREA FOR THE THIRD YEAR (JULY 1, 2014 – JUNE 30, 2015) OF THE THREE YEAR BUDGET PERIOD BEGINNING JULY 1, 2012
- 14-21-06 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF THE REGULAR MEETING FOR JULY 8, 2014 BOARD MEETING
- 14-22-07 RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE AGREEMENT BY AND BETWEEN THE HUDSON RIVER-BLACK RIVER REGULATING DISTRICT AND THE CIVIL SERVICE EMPLOYEES ASSOCIATION, INC., AFSCME LOCAL 1000, AFL-CIO HUDSON RIVER-BLACK RIVER REGULATING DISTRICT LOCAL 120

RESOLUTIONS ----- 2014

- 14-23-07 RESOLUTION APPROVING PAYMENT OF A 2% GENERAL SALARY INCREASE TO THE NON-COLLECTIVE BARGAINING EMPLOYEES OF THE REGULATING DISTRICT AS IS PROVIDED FOR EXECUTIVE DEPARTMENT MANAGEMENT CONFIDENTIAL EMPLOYEES IN DIVISION OF BUDGET BULLETIN D-1129 ISSUED JUNE 13, 2014
- 14-24-07 RESOLUTION TO ACCEPT GEI PROPOSAL TO PERFORM THIRD PART 12 INDEPENDENT CONSULTANT SAFETY INSPECTION AT THE CONKLINGVILLE DAM
- 14-25-07 RESOLUTION TO APPROVE FIRST AMENDMENT TO CONTRACT C012012 WITH KLEINSCHMIDT ASSOCIATES, PA, PC
- 14-26-07 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF REGULAR MEETING FOR SEPTEMBER 9, 2014 BOARD MEETING
- 14-27-09 RESOLUTION TO AWARD THE WORK TO PERFORM "ON CALL" SURVEYING SERVICES TO CLARK ENGINEERING & SURVEYING, P.C.
- 14-28-09 RESOLUTION TO AMEND CONTRACT C032013 WITH BERGMANN ASSOCIATE'S TO COMPLETE INDIAN LAKE FIRST ENGINEERING ASSESSMENT
- 14-29-09 RESOLUTION TO AMEND THE REGULATING DISTRICT'S PROCUREMENT POLICY PURSUANT TO THE RECOMMENDATION OF THE NYS OFFICE OF THE STATE COMPTROLLER
- 14-30-09 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF THE FINANCE COMMITTEE AND REGULAR MEETING FOR OCTOBER 15, 2014 BOARD MEETING
- 14-31-10 RESOLUTION TO ENGAGE THE FIRM OF GIRVIN FERLAZZO, PC TO PROVIDE LEGAL SERVICES WORK IN CONNECTION WITH THE NIMO STATE & FEDERAL CASE
- 14-32-10 RESOLUTION TO AWARD INDIAN LAKE DAM SUBSURFACE INVESTIGATION WORK TO ATLANTIC TESTING LABORATORIES
- 14-33-10 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF REGULAR MEETING FOR NOVEMBER 5, 2014 BOARD MEETING
- 14-34-11 RESOLUTION TO PROMOTE STEPHANIE RUZYCKY TO ENGINEERING ASSISTANT OF THE HUDSON RIVER-BLACK RIVER REGULATING DISTRICT

RESOLUTIONS ----- 2014

- 14-35-11 RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO EXERCISE LEASE EXTENSION AMENDMENT #5 WITH DAVID L. GRUENBERG, AS THE TEMPORARY RECEIVER OF RENTS & PROFITS (ACTING ON BEHALF OF SKY FOUR REALTY LLC) FOR THE ALBANY OFFICE
- 14-36-11 RESOLUTION TO APPROVE SECOND AMENDMENT TO CONTRACT C012012 WITH KLEINSCHMIDT ASSOCIATES, PA, PC
- 14-37-11 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF THE REGULAR MEETING FOR DECEMBER 9, 2014 BOARD MEETING
- 14-38-12 RESOLUTION OF INTENT FOR THE REGULATING DISTRICT TO SERVE AS LEAD AGENCY FOR HAWKINSVILLE DAM RECONSTRUCTION SEQRA COMPLIANCE AND TO ISSUE A NOTICE OF DETERMINATION OF NON-SIGNIFICANCE
- 14-39-12 RESOLUTION SCHEDULING DATE, TIME AND LOCATION OF THE ANNUAL ORGANIZATIONAL MEETING AND REGULAR MEETING FOR JANUARY 13, 2015