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, 2016 AND 2015

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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, and the aggregate discretely presented component units of Hudson River-Black River Regulating District (the Regulating District), a New York Public Benefit Corporation, which is a discretely presented component unit of the State of New York, as of and for the years ended June 30, 2016 and 2015, and the related notes to the consolidated financial statements, which collectively comprise the Regulating District's basic 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 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. 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 opinions.

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Independent Auditor's Report (Continued)

Opinions
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, and the aggregate discretely presented component units of Hudson River-Black River Regulating District as of June 30, 2016 and 2015, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 2 of the consolidated financial statements, the 2015 consolidated financial statements have been restated to incorporate the effects of the Regulating District's adoption of the provisions of GASB Statement No. 68 *"Accounting and Financial Reporting for Pensions"* and GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date"*. The effects of any restatements can be seen at Note 15. Our opinion is not modified with respect to this matter.

Other Matters
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 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.

Other Required Supplemental Information
The supplemental schedules required in accordance with the implementation of GASB 68 *"Accounting and Financial Reporting for Pensions"* on pages 47 and 48 are the responsibility of management. The schedules were derived from underlying accounting information from the New York State Employee Retirement System, along with information maintained by the Regulating District. These schedules have not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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Independent Auditor's Report (Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Regulating District's basic consolidated financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combing financial statements are fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2016 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
October 31, 2016

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 years ended June 30, 2016 and 2015.

Following this MD&A are the basic financial statements of the Regulating District together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. The Statements of Net Position and the Statements of Activities and Changes in Net Position (on pages 11 and 12, respectively) provide both long-term and short-term information about the Regulating District's overall financial status. The Statements of Cash Flows (on page 13) 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.

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 Albany, Rensselaer, Saratoga, Warren, and Washington, (the "five (5) counties") and the State of New York 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 from the issuance of annual revocable permits for the purpose of providing public access to the Great Sacandaga Lake across state land and federal headwater benefit fees pursuant to Section 10f of the Federal Power Act.

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 and federal headwater benefit fees pursuant to the Section 10f of the Federal Power Act. 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, federal headwater benefit fees, 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, not including non-operating expenses and/or annual adjustments included in the Regulating District's Consolidated Statements of Activities and Changes in Net Position.

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 occupy 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.

OPERATIONS SUMMARY

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

	Hudson River Area			Black River Area		
	2016	2015	2014 (As Restated)	2016	2015	2014 (As Restated)
Operating revenues	$ 8,422	$ 5,396	$ 5,477	1,471	$ 1,239	$ 1,237
Operating expenses	(5,510)	(5,883)	(8,547)	(921)	(1,280)	(1,350)
Operating revenue (loss)	2,912	(487)	(3,070)	550	(41)	(113)
Net non-operating revenue (expense)	32	(53)	(11)	10	41	45
Changes in net position	2,944	$ (540)	$ (3,081)	560	$ -	$ (68)

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, 2015 to June 30, 2016, the operating revenues increased primarily due to an increase in assessment revenue for the Regulating District. From fiscal year June 30, 2014 to June 30, 2015, the operating revenues remained relatively consistent.

Operating expenses remained relatively consistent for the year ended June 30, 2016. Accounts receivable written off during the 2016 fiscal year to bad debt expense was approximately $30,000 compared to additional accounts receivable allowance reserves recorded to bad debt expense during 2015 of approximately $66,000. During 2014, receivable write-offs were based on an agreement made for a reduced payment on outstanding assessments due from the five (5) counties. During 2015, 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.

As a result of the accounts receivable write-offs and increased allowance reserves recorded in prior years, there were no significant accounts receivable adjustments recorded during 2015.

The decrease in operating expenses from 2014 to 2015 was also primarily related to the approximate $840,000 one-time litigation settlement payment during 2014 mentioned above. The combined decrease in operating expenses related to bad debt expense and contingency settlement matters of approximately $2.6 million was offset by increases in personnel services and employee benefits of approximately $196,000 due to the hiring of new personnel, in addition to the increase of approximately $137,000 in

OPERATIONS SUMMARY (CONTINUED)

contractual services as a result of approved structural maintenance and repair projects on the Regulating District's Dams.

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. There were no restrictions on the Regulating District's net position fund balances as of June 30, 2015 and 2014, respectively.

Annual imbalance 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. The next budgeting cycle began July 1, 2015 and ends June 30, 2018. The budget was approved by the Regulating District's Board in June of 2015 and can be found on the Regulating District's website.

STATEMENT OF NET POSITION SUMMARY (in 000s)

	2016	2015	2014 (As Restated)
Buildings	937	$ 937	$ 937
Building improvements, furniture & equipment	1,759	1,723	1,694
Vehicles	550	565	740
Dam structures	14,118	14,118	14,118
Cost of capital assets	17,364	17,343	17,489
Less: Accumulated depreciation	(14,451)	(14,282)	(14,321)
Net book value of capital assets	2,913	3,061	3,168
Deferred outflows of resources	1,522	273	-
Current assets	5,603	2,638	2,671
Total assets and deferred outflows of resources	10,037	5,972	5,839
Curernt liabilities	9,106	1,442	1,520
Long-term liabilities	776	7,879	7,129
Total liabilities	9,882	9,321	8,649
Net position:			
Net investment in capital assets	2,913	3,061	3,168
Unrestricted	(2,757)	(6,410)	(5,977)
Total net position	155	$ (3,349)	$ (2,809)

OPERATIONS SUMMARY (CONTINUED)

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.

Also, the Regulating District implemented Government Accounting Standards Board Statement 68 in 2015. With the new reporting change, the Regulating District is allocated its proportionate share of the New York State Employers' Retirement System's net pension liability, deferred outflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position of 2015 by $213,740. Decisions regarding the allocations to employers are made by the administrators of the pension plan, not by the Regulating District's management.

CAPITAL ASSETS

During 2016 the Regulating District increased their capital assets by approximately $84,000 due to the purchase of a new vehicle for approximately $31,000 and new office equipment totaling approximately $53,000. The Regulating District also sold three fully depreciated vehicles with a cost basis of approximately $46,000 for approximately $20,000 in cash and retired fully depreciated equipment with in aggregate cost basis of approximately $16,800. During 2015 the Regulating District increased their capital assets by approximately $109,000 due to the purchase of three new vehicles for approximately $79,000 and new office equipment totaling $30,000. The Regulating District also sold one fully depreciated vehicle with a cost basis of approximately $18,000 for approximately $5,000 in cash, and retired additional fully depreciated vehicles with an aggregate cost basis of approximately $236,000.

Depreciation expense decreases the book value of capital assets each year. 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

Initially, the Regulating District's Board approved the proposed issuance of $2.5 million in serial bonds for the completion of three (3) FERC (Federal Energy Regulatory Commission) required projects. Both projects were associated with the Conklingville Dam. During 2015 the Regulating District's Board approved a revised proposed issuance of approximately $4.5 million in serial bonds for projects related to the Hawkinsville Dam reconstruction and ice sluice/spillway concrete repair at the Conklingville Dam, in the amount of $1,249,098 and $3,246,867 respectively. The Regulating District is currently working with Environmental Facilities Corporation toward the conclusion of a serial bond issuance for the Conklingville Dam capital project financing tentatively scheduled for a March 2017 closing. The Hawkinsville Dam remediation is scheduled for separate financing later in 2017.

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 reestablished the Regulating District’s Hudson River Area assessment revenue stream. With this agreement in effect, the Regulating District will continue to experience decreased cash inflows during the 2015-2018 budgeting cycles.

The increase in the Regulating District's net position at June 30, 2016 is substantially due to an increase in revenue from assessments combined with a reduction in operating costs. 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 shifted the Regulating District’s primary funding source from federally licensed for profit hydropower generators to the five (5) counties (Albany, Rensselaer, Saratoga, Warren, and Washington).

Also, as noted in the final FERC Study, the Regulating 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 Regulating 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 amounts. FERC staff requested additional information from the licensees regarding the amounts that the Regulating 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.

Based on the receipt of that information along with the consideration of other related licensee claims and settlements, an order was reached by FERC in August 2015 that requires certain licensees to start paying past due headwater assessments as previously settled, while other licensees would participate in a crediting system whereas the aggregate refund amounts that licensees are entitled to will be amortized and netted against their annual headwater benefit fee assessments.

Federal Headwater Benefit fees received during the first and second quarters of fiscal year ending June 30, 2016, in the amount of $2,822,415, were pursuant to Section 10f of the Federal Power Act. That amount represents payments from three (3) hydro-electric companies, Erie Boulevard Hydropower LP ($2,394,448) for years 2009-2015, Boralex Hydro Operations, Inc. ($372,967) for years 2012-2015, and Albany Engineering Corp., ($54,999) for years 2009-2015 following years of litigation as cited above.

POTENTIAL FUTURE ECONOMIC EVENT, CONTINUED

The amounts received represent final decisions rendered by the Federal Energy & Regulatory Commission (FERC) in all cases, establishing the annual receipt of fees going forward by those three (3) hydropower concerns. All other licensee amounts will be amortized and netted against their annual headwater benefit fee assessment pursuant to the FERC order.

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
AS OF JUNE 30, 2016 AND 2015

		2016		2015
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	3,782,907	$	1,231,636
Accounts receivable, net		879,510		1,032,970
Prepaid expenses		940,103		373,707
TOTAL CURRENT ASSETS		**5,602,520**		**2,638,313**
CAPITAL ASSETS, NET		2,912,626		3,060,827
TOTAL ASSETS		**8,515,146**		**5,699,140**
DEFERRED OUTFLOWS OF RESOURCES		1,522,224		272,634
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	**10,037,370**	$	**5,971,774**
LIABILITIES				
CURRENT LIABILITIES				
Accounts and accrued expenses payable	$	13,452	$	989,747
Compensated absences		443,428		330,367
Current portion of retirement incentive		-		58,680
Current portion due to New York State Retirement System		62,991		62,865
Other post employment benefits		8,586,040		7,698,643
TOTAL CURRENT LIABILITIES		**9,105,911**		**9,140,302**
NON-CURRENT LIABILITIES				
Retirement incentive, net of current portion		-		-
New York State Retirement System payable, net of current portion		16,840		21,050
Proportionate share of NYS Retirement net pension liability		759,391		159,790
TOTAL NON-CURRENT LIABILITIES		**776,231**		**180,840**
TOTAL LIABILITIES		**9,882,142**		**9,321,142**
NET POSITION				
Net investment in capital assets		2,912,626		3,060,827
Unrestricted		(2,757,398)		(6,410,195)
TOTAL NET POSITION	$	**155,228**	$	**(3,349,368)**

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 ACTIVITIES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUE		
Assessments	$ 6,968,133	$ 4,165,038
New York State assessments	1,103,278	800,380
Water power service	1,385,585	1,244,237
Permit fees	434,103	422,371
Other	2,433	2,197
TOTAL OPERATING REVENUE	**9,893,532**	**6,634,223**
OPERATING EXPENSES		
Real estate taxes	2,235,975	2,762,255
Personnel service and employee benefits	2,978,608	3,051,761
Bad debt	29,803	66,242
Contractual services	903,866	1,043,502
Depreciation and amortization	232,459	215,306
Materials and supplies	50,809	23,252
TOTAL OPERATING EXPENSES	**6,431,520**	**7,162,318**
TOTAL OPERATING INCOME (LOSS)	**3,462,012**	**(528,095)**
NON-OPERATING REVENUE (EXPENSE)		
Net interest income (expense)	22,414	(15,928)
Other income	20,169	4,520
TOTAL NON-OPERATING REVENUE (EXPENSE)	**42,583**	**(11,408)**
CHANGES IN NET POSITION	**3,504,595**	**(539,503)**
TOTAL NET POSITION - BEGINNING OF YEAR	(3,349,367)	(2,809,865)
TOTAL NET POSITION - END OF YEAR	**$ 155,228**	**$ (3,349,368)**

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from assessment beneficiaries	$ 8,195,069	$ 4,999,506
Cash received from water power service	1,385,585	1,244,237
Cash received from permit fees	434,103	422,371
Other cash receipts	2,433	2,197
Interest paid	-	(17,095)
Payments to vendors and suppliers for goods and services	(5,986,314)	(4,161,321)
Payments to employees	(1,437,929)	(2,225,207)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**2,592,947**	**264,688**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of vehicles	(31,398)	(78,846)
Puchase of equipment	(52,860)	(30,006)
Proceeds from sale of vehicle	20,169	4,520
Investment income	22,414	1,167
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(41,675)**	**(103,165)**
CHANGE IN CASH AND CASH EQUIVALENTS	**2,551,272**	**161,523**
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,231,636	1,070,113
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 3,782,908**	**$ 1,231,636**

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net position	$ 3,504,596	$ (539,503)
Investment income	(22,414)	(1,167)
Changes in net position, net	**3,482,182**	**(540,670)**
Adjustments to reconcile changes in net position, to net cash flow from operating activities:		
Depreciation and amortization	232,459	215,306
Bad debt	29,803	66,242
Gain on asset sale	(20,169)	(4,520)
Accounts receivable	123,658	117,105
Prepaid expenses	(566,396)	12,021
Deferred outflow of pension resources	(1,249,590)	(272,634)
Accounts and accrued expenses payable	(976,294)	(154,716)
Compensated absences	113,061	25,696
Retirement incentive	(58,680)	(58,680)
Due to New York State Retirement System	(4,084)	46,595
Proportionate net pension liability of the New York State Retirement Systen	599,601	(53,950)
Other postemployment benefits obligation	887,397	866,891
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**$ 2,592,947**	**$ 264,688**

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

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 [Hudson River and Black River] 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.

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.

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, 2016 and 2015 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.
- **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.

Restatement of June 30, 2014 Consolidated Financial Information

Due to the implementation of Government Accounting Standards Board Statements No. 68 "*Accounting and Financial Reporting for Pensions"*, and Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date*", the 2014 consolidated financial information has been restated to conform to the new accounting and reporting requirements. See Note 15 for changes to the Regulating District's 2014 overall net position.

Recent Accounting Pronouncements

In June 2015, the Government Accounting Standards Board ("GASB") issued Statement No. 76 ("GASB 76") *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

The requirements of GASB 76 are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The requirements in GASB 76 improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. This pronouncement had no impact on the consolidated financials of the Regulating District.

In June 2015, GASB issued Statement No. 75 ("GASB 75") *"Accounting and Financial Reporting for Postemployment Benefits Other than Pensions"*. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB 75 replaces the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of GASB 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In addition, this GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and the plan members.

Alternative measurement method: GASB 75 includes an option for the use of a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through an OPEB plan in which fewer than 100 employees (active and inactive) are provided with OPEB through the plan. The alternative measurement method is an approach that includes the same broad measurement steps as an actuarial valuation (projecting benefit payments, discounting projected benefit payments to a present value, and attributing the present value of projected benefit payments to periods using an actuarial cost method). However, it permits simplification of certain assumptions.

GASB 75 is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

In June 2015, GASB issued Statement No. 74 ("GASB 74") *"Financial Reporting for Postemployment Benefits Plan Other Than Pension Plans.* The objective of GASB 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB 74 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

GASB 74 replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended,* Statement 43, and Statement No. 50, *Pension Disclosures*.

GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of GASB 74 includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Alternative measurement method GASB 74 includes an option for the use of a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). The alternative measurement method is an approach that includes the same broad measurement steps as an actuarial valuation (projecting benefit payments, discounting projected benefit payments to a present value, and attributing the present value of projected benefit payments to periods using an actuarial cost method). However, it permits simplification of certain assumptions so that the method potentially could be applied by non-specialists.

GASB 74 is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2015, GASB issued Statement No. 73 ("GASB 73") *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*. The objective of this GASB 73 is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. GASB 73 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 73 establishes requirements for defined benefit pensions that are not within the scope of GASB 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB 68. It also amends certain provisions of GASB 67, *Financial Reporting for Pension Plans*, and GASB 68 for pension plans and pensions that are within their respective scopes.

The requirements of GASB 73 extend the approach to accounting and financial reporting established in GASB 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB 68 should not be considered pension plan assets. It also requires that information similar to that required by GASB 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities.

GASB 73 also clarifies the application of certain provisions of GASB 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions
- Timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

The requirements of GASB 73 that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of GASB 73 that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of GASB 67 or for pensions that are within the scope of GASB 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged. The effects of GASB 73 have been considered during this transition period for the year ended June 30, 2015.

In February 2015, GASB issued Statement No. 72 ("GASB 72") *"Fair Value Measurement and Application".*

The objective of GASB 72 is to improve financial reporting by clarifying the definition of fair value1 for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

The requirements of GASB 72 are effective for financial statements for periods beginning after June 15, 2015. The impact of GASB 72 has been implemented in the current consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

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

GASB 68 requires a state or local government employer (or non-employer 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 non-employer 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, GASB 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, GASB 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to GASB 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of GASB 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 non-employer contributing entity's beginning net position and expense in the initial period of implementation.

GASB 71 amends paragraph 137 of GASB 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. GASB 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 GASB 71 are required to be applied simultaneously with the provisions of GASB 68.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

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

The Regulating District deemed it was not practical to determine all of the amounts for deferred outflows of resources and deferred inflows of resources that could have been reported related to pensions at June 30, 2014. There were no contributions made after the measurement date of the beginning net pension liability. However, upon transition to GASB 68 during the year ended June 30, 2015, the pronouncement has been implemented based on available information from the New York State Employees Retirement System. As part of transitioning to the new pension requirements during the 2015 fiscal year the Regulating District has restated certain 2014 information to incorporate the beginning net pension liability as of June 30, 2014.

Cash and Cash equivalents

The Regulating District considers all short-term investments with original maturities of three months or less to be cash equivalents.

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, 2016 and 2015, the Regulating District also had funds held by New York State in Short Term Investment Pools (STIP). The Regulating District does not control and 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 of $879,510 and $1,032,970 at June 30, 2016 and 2015, respectively, are recorded net of the allowance for doubtful accounts of $1,307,448 and $2,200,281 at June 30, 2016 and 2015, respectively.

The Regulating District continuously monitors outstanding accounts receivable for collectability. During the years ended June 30, 2016 and 2015, the Regulating District recognized $29,803 and $66,242, respectively in bad debt expense based on the status of its doubtful accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets

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

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

Accrued Employee Benefits

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

Deferred Outflows/Inflows of Resources

In addition to assets, due to the implementation of GASB Statement 68 the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Regulating District has two items that meet this criterion, contributions made to the pension plan in the 2016 and 2015 fiscal year but subsequent to the pension plan's measurement date and changes adjustments to variance pension activity assumptions. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. As of June 30, 2016, the Regulating District has a deferred inflow of resources of $90,013 related to the pension plan, and $0 in June 30 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pensions

For purposes of measuring the deferred outflows of resources, net pension liability and pension expense related information about the fiduciary net position of the New York State and Local Retirement System ("NYSLRS") and additions to/deductions from NYSLRS' fiduciary net position have been determined on the same basis as they are reported by NYSLRS. For this purpose, plan member contributions are recognized in the period in which the contributions are due.

The Regulating District's employer contributions are recognized when due and the Regulating District has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of NYSLRS. Investments are reported at fair value.

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

Operating and Non-Operating Revenues (Expenses)

Operating revenue consists of assessments, water power service, federal headwater benefit fees, and permit fees. The Regulating District defines non-operating revenue as interest earnings cash or investment assets and realized/unrealized gains or losses on sales of investments. Non-operating expense primarily reflects interest expense on financing arrangements and pension related payments. At June 30, 2016 and 2015 the Regulating District did not own any investment assets.

Income Tax Status

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

Fair Value of Financial Instruments

The fair value of financial instruments classified as current assets or liabilities approximate their carrying value due to the short-term maturity of the instruments.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II inputs are inputs (other than quoted prices included within Level I) that are observable for the asset or liability, either directly or indirectly.
- Level III inputs are unobservable inputs, for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair Value of Financial Instruments, Continued

The Regulating District's financial instruments are primarily based on Level III inputs. The fair value of the Regulating District's financial instruments approximate the carrying amounts reported in the Statement of Net Position for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and all other liabilities.

3. CASH

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

		Carrying (Book) Value		Bank Balance
June 30, 2016	$	43,228	$	63,944
June 30, 2015	$	173,072	$	269,893

The Regulating District’s cash deposits that were secured by the FDIC at June 30, 2016 and 2015 were $63,944 and $269,893, respectively.

Deposits held in Short Term Investment Pools (STIP), held by the NYS Comptroller’s Office, totaled $3,739,428 and $1,058,314 at June 30, 2016 and 2015, respectively.

A summary of the carrying value of cash and deposits as of June 30, 2016 and June 30, 2015 are as follows:

		2016		**2015**
Cash	$	43,229	$	173,072
STIP funds		3,739,428		1,058,314
Petty cash		250		250
	$	**3,782,907**	**$**	**1,231,636**

4. CAPITAL ASSETS

Capital assets consisted of the following at June 30:

	2015	Additions	Retirements and Disposals	2016
Hudson River Area:				
Dam structures	$ 12,104,830	$ -	$ -	$ 12,104,830
Building and improvements	1,920,454	-	-	1,920,454
Office and other equipment	229,355	52,860	(16,832)	265,383
Vehicles	424,927	31,398	(46,164)	410,162
Total at cost	14,679,566	84,258	(62,996)	14,700,829
Less: accumulated depreciation				
Dam structures	(10,720,939)		-	(9,805,148)
Building and improvements	(719,908)	(169,056)	-	(1,803,008)
Office and other equipment	(184,204)	(11,880)	16,832	(182,402)
Vehicles	(381,214)	(12,682)	46,164	(346,330)
Less: total accumulated depreciation	(12,006,265)	(193,618)	62,996	(12,136,888)
Total Hudson River Area depreciable assets, net	2,673,301	(109,360)	-	2,563,941
Black River Area:				
Dam structures	2,013,195	-	-	2,013,195
Building improvements	406,442	-	-	406,442
Equipment	72,140		-	72,140
Vehicles	139,868			139,868
Office equipment	31,647		-	31,647
Total at cost	2,663,292	-	-	2,663,292
Less: accumulated depreciation:				
Dam structures	(1,923,712)	-		(1,923,712)
Building improvements	(159,086)	(9,810)		(168,896)
Equipment	(69,540)	(3,850)		(73,390)
Vehicles	(123,428)	(25,181)		(148,609)
Less: total accumulated depreciation	(2,275,766)	(38,841)	-	(2,314,607)
Total Black River Area depreciable assets, net	387,526	(38,841)	-	348,685
Total capital assets, net	**$ 3,060,827**	**$ (148,201)**	**$ -**	**$ 2,912,626**

4. CAPITAL ASSETS, CONTINUED

	2014	Additions	Retirements and Disposals	2015
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	5,095	-	229,355
Vehicles	589,556	52,939	(217,568)	424,927
Total at cost	14,839,100	58,034	(217,568)	14,679,566
Less: accumulated depreciation				
Dam structures	(10,576,472)	(144,467)	-	(10,720,939)
Building and improvements	(695,317)	(24,591)	-	(719,908)
Office and other equipment	(177,239)	(6,965)	-	(184,204)
Vehicles	(592,827)	(5,955)	217,568	(381,214)
Less: total accumulated depreciation	(12,041,855)	(181,978)	217,568	(12,006,265)
Total Hudson River Area depreciable assets, net	2,797,245	(123,944)	-	2,673,301
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	25,907	(36,840)	139,868
Office equipment	6,736	24,911	-	31,647
Total at cost	2,649,314	50,818	(36,840)	2,663,292
Less: accumulated depreciation:				
Dam structures	(1,903,712)	(20,000)		(1,923,712)
Building improvements	(149,276)	(9,810)		(159,086)
Equipment	(66,454)	(3,086)		(69,540)
Vehicles	(159,836)	(432)	36,840	(123,428)
Less: total accumulated depreciation	(2,279,278)	(33,328)	36,840	(2,275,766)
Total Black River Area depreciable assets, net	370,036	17,490	-	387,526
Total capital assets, net	**$ 3,167,281**	**$ (106,454)**	**$ -**	**$ 3,060,827**

Depreciation expense charged to operations for the years ended June 30, 2016 and 2015 was as follows:

	2016	2015
Hudson River Area	$ 193,618	$ 181,978
Black River Area	38,841	33,328
Total depreciation expense	$ **232,459**	**$ 215,306**

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 or online at www.osc.state.ny.us/retire/publications/index.php.

Eligibility and 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.

The System is noncontributory for employees who joined prior to July 27, 1976. Employees who joined the System after July 27, 1976, and prior to January 1, 2010 contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. Employees who joined after January 1, 2010 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 joined on or after April 1, 2012 contribute 3% of their salary. Tier 6 members (post April 1, 2013) contribute 3-6% based on their annual compensation.

5. RETIREMENT SYSTEM, CONTINUED

The Regulating District's employees are among Tiers 3, 4 and 6, however there are only two remaining contributing employees across Tiers 4 and 6 as of June 30, 2016.

Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

2016	$ 236,634
2015	$ 237,731
2014	$ 242,630

Benefits (only for those in which the Regulating District has employees in)

Tiers 3, 4 and 5

Benefit Calculation: Generally, the benefit is 1.67% of the final average salary for each year of service if the employee retires with less than 20 years. If the employee retires with between 20 and 30 years of service, the benefit is 2% of final average salary for each year of service. If the employee retires with more than 30 years of service, an additional benefit of 1.5% of final average salary is applied for each year of service over 30 years. Tiers 3 and 4 members with five or more years of service and Tier 5 employees with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Tier 6

Benefit Calculation: Generally, the benefit is 1.67% of the final average salary for each year of service if the employee retires with less than 20 years. If the employee retires with 20 years of service, the benefit is 1.75% of final average salary for each year of service. If the employee retires with more than 20 years of service, an additional benefit of 2% of final average salary is applied for each year of service over 20 years. Tier 6 employees with ten or more years of service can retire as early as age 55 with reduced benefits.

Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute.

5. RETIREMENT SYSTEM, CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension

At June 30, 2016, the Regulating District has a liability of $759,391 for its proportionate share of the net pension liability, as opposed to $159,790 at June 30, 2015. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Regulating District's proportion of the net pension liability was based on a projection of the Regulating District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2016 the Regulating District's proportion was 0.00473%, which was the same as its proportion measured as March 31, 2015.

For the year ended June 30, 2016, the Regulating District recognized pension expense of $493,752 under GASB 68. At June 30, 2016, the Regulating District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,837	$ 90,013
Changes of assumptions	202,507	-
Net difference between projected and actual earnings on pension plan investments	450,512	-
Changes in proportion and differences between LG contributions and proportionate share of contributions	48,369	-
Contributions subsequent to the measurement date	-	-
	$ 705,225	**$ 90,013**

There is $90,013 reported as deferred outflows of resources related to pensions resulting from the Regulating District's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended March 31:	
2016	$8,726
2017	$8,726
2018	$8,726
2019	$8,726
2020	-

5. RETIREMENT SYSTEM, (CONTINUED)

Accrued Employee Retirement System ("ERS") Retirement Payable

Employer contributions to ERS are paid annually and cover the period through the end of ERS's fiscal year, which is March 31st. Accrued retirement contributions as of June 30, 2016 and 2015 represent the projected employer contribution for the period of April 1 through June 30 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued ERS retirement payable due to ERS as of June 30, 2016 and 2015 was $79,831 and $83,915 respectfully.

Actuarial Assumptions

The total pension liability at March 31, 2016 and 2015 was determined by using an actuarial valuation as of April 1, 2015 and 2014, respectfully, with update procedures used to roll forward the total pension liability to March 31, 2016 and 2015, respectfully. The actuarial valuation used the following actuarial assumptions:

Significant actuarial assumptions for the Employee Retirement System used in the April 1, 2015 and 2014 valuation were as follows:

Actuarial cost method	Entry age normal
Inflation	2.7%
Salary increases	4.9%
Investment rate of return (net of investment expense, including inflation)	7.5%
Cost of living adjustments	1.4%

Annuitant mortality rates are based on April 1, 2005 - March 31, 2010 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

The long term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations.* ASOP No. 27 provides guidance on the selection of an appropriate assumed rate of return. Consideration was given to expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 are summarized below:

5. RETIREMENT SYSTEM, CONTINUED

Long Term Expected Rate of Return 2016

Asset Type	Long Term Expected Real Rate
Domestic equity	7.30%
International equity	8.55
Private equity	11.00
Real estate	8.25
Absolute return strategies	6.75
Opportunistic portfolio	8.60
Real assets	8.65
Bonds and mortgages	4.00
Cash	2.25
Inflation indexed bonds	4.00
	100.00%

Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Regulating District's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Regulating District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
The Regulating District's proportionate share of the net pension liability	$1,712,371	$759,391	$(45,837)

5. RETIREMENT SYSTEM, CONTINUED

Pension plan fiduciary net position

The components of the net pension liability of the employers as of March 31, 2016, were as follows: (Rounded to the Thousands)

		Employees' Retirement System
Total total pension liability	$	172,303,544
Plan net position		(156,253,265)
Total net pension liability	**$**	**16,050,279**
Ratio of plan net position to the total pension liability		90.7%
Total net pension liabilty	**$**	16,050,279
Regulating District allocation percentage		4.73133%
The Regulating District's proportion of the total net pension liability	**$**	**759,391**

Although GASB No. 68 requires that information is presented from the NYS Employee Retirement System through the plan's fiscal year end (March 31), the Regulating District has accounted for activity where applicable, from April 1st through its fiscal year end of June 30th.

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 and 28 retired employees currently receiving benefits, respectively, at June 30, 2016 and 2015

6. POSTEMPLOYMENT HEALTH CARE BENEFITS, CONTINUED

(not including 6 and 7 widowed spouses, respectively). The Retirement Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan

Funding Policy

The obligations of the Retirement Plan are established by action of the Regulating District pursuant to applicable collective bargaining and employment agreements. The required premium contribution rates of retirees range from 0%-25%, depending on when the employee was hired and if the employee is governed by a CSEA or a management exempt plan. The Regulating District will pay 100% of the premiums for the retiree and spouse for a management exempt employee, 100% of the premium for a Union employee, and 75% of the premium for a Union 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 amounts paid during 2016 and 2015 were approximately $767,633 and $366,139, respectively, and are included in "personnel services and employee benefits" as part of 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 GASB Statement No. *45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). GASB 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities are no longer done under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost is determined, which will be used to determine a 'normal cost', an 'actuarial accrued liability' and the ARC. 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:

6. POSTEMPLOYMENT HEALTH CARE BENEFITS, CONTINUED

	June 30, 2016	June 30, 2015
Annual required contribution (ARC) *	$ 1,425,515	$ 1,376,628
Interest on net OPEB obligation *	229,515	204,953
Adjustment to ARC *	-	(348,551)
Annual OPEB cost *	1,655,030	1,233,030
Contributions made	(767,633)	(366,139)
Increase in net OPEB obligation *	887,397	866,891
Net OPEB obligation - beginning of year	7,698,643	6,831,752
Net OPEB obligation - end of year *	$ 8,586,040	$ 7,698,643

* - Projected

Note: All references above noted with "*" are 'Projected' amounts. As a result of the Regulating District's employee participation being below 100 participants, in accordance with the alternative method the Regulating District is not required to have annual benefit valuations. The last valuation report was effective June 30, 2014 using an employee valuation and measurement date as of July 1, 2013, therefore, the valuation does not include actual information on employee and/or salary changes during the 2016 and 2015 fiscal years. Actuarial information below are estimates except for paid health contributions.

Annual OPEB Cost and Net OPEB Obligation, Continued

Trend Information

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

	June 30, 2016	June 30, 2015	June 30, 2014
Annual OPEB cost *	$ 1,655,030	$ 1,233,030	$ 1,202,463
Actual employer contribution	$ 767,633	$ 366,139	$ 397,509
Employer contribution as a percent of the annual OPEB cost	46%	30%	33%
Net OPEB obligation at end of year *	$ 8,586,040	$ 7,698,643	$ 6,831,752

* - Projected

6. POSTEMPLOYMENT HEALTH CARE BENEFITS, CONTINUED

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)	of Covered Payroll (b-a)/(c)
7/1/2013	6/30/16	$ -	$ 16,448,849	$ 16,448,849	0%	$ 1,422,745	1156%
7/1/2013	6/30/15	$ -	$ 15,825,364 *	$ 15,825,364 *	0%	$ 1,289,382	1227%
7/1/2013	6/30/14	$ -	$ 15,219,598	$ 15,219,598	0%	$ 1,215,048	1253%

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.

Per 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%

6. POSTEMPLOYMENT HEALTH CARE BENEFITS, CONTINUED

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 have been incorporated in the Actuarial Accrued Liability disclosed above.

7. NET POSITION

Due to the Regulating District's negative unrestricted net position as of June 30, 2016 and 2015, there have been no designations of funds set aside for needed projects.

8. CONTINGENCIES

Niagara Mohawk Power Corporation (Niagara) had commenced Article 78 proceedings seeking to nullify assessments levied by the Regulating District between 2000 and 2015. These cases commenced annually in the State Supreme Court since 2001 and in the U.S.D.C. and N.D.N.Y. in 2009.

A second suit had been brought by Niagara asserting five claims including that the Regulating District's assessments of these claims were preempted by the Federal Power Act and that the assessments violate the equal protection and due process clauses of the Federal and State constitutions.

On April 29, 2016 the above matters were fully and finally resolved in a comprehensive settlement agreement. Under the settlement Niagara agreed to terminate all of the above

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 shifted the Regulating District's primary funding source from federally licensed for profit hydropower generators to the five (5) counties (Albany, Rensselaer, Saratoga, Warren, and Washington).

8. CONTINGENCIES, CONTINUED

Also, as noted in the final FERC Study, the Regulating 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 Regulating 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 amounts. FERC staff requested additional information from the licensees regarding the amounts that the Regulating 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. Based on the receipt of that information along with the consideration of other related licensee claims and settlements, an order was reached by FERC in August 2015 that requires certain licensees to start paying past due headwater assessments as previously settled, while other licensees would participate in a crediting system whereas the aggregate refund amounts that licensees are entitled to will be amortized and netted against their annual headwater benefit fee assessments.

Federal Headwater Benefit fees received during the first and second quarters of fiscal year ending June 30, 2016, in the amount of $2,822,415, were pursuant to Section 10f of the Federal Power Act. That amount represents payments from three (3) hydro-electric companies, Erie Boulevard Hydropower LP ($2,394,448) for years 2009-2015, Boralex Hydro Operations, Inc. ($372,967) for years 2012-2015, and Albany Engineering Corp., ($54,999) for years 2009-2015 following years of litigation as cited above.

The amounts received represent final decisions rendered by the Federal Energy & Regulatory Commission (FERC) in all cases, establishing the annual receipt of fees going forward by those three (3) hydropower concerns. All other licensee amounts will be amortized and netted against their annual headwater benefit fee assessment pursuant to the FERC order.

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. As of June 30, 2016, no claim has been filed.

8. CONTINGENCIES, CONTINUED

In conjunction with a 2013 apportionment settlement agreement with the 5 counties, a sub-agreement was executed specifically with the Saratoga County of New York. This sub-agreement addressed the handling of past due property taxes due to Saratoga county from 2009-2012. A crediting mechanism was put in place to offset assessment revenues due to the Regulating District through June 30, 2015 and then at June 30, 2015 a balloon payment would be due to Saratoga County for the remainder amount. As of June 30, 2014 the Regulating District recorded a liability for this anticipated balloon payment in the amount of $962,948. In November 2014, in anticipation of the balloon payment due date of June 30, 2015, the Regulating District proposed an installment payment offer based on an estimated liability amount of $931,097. During the fiscal year ended June 30, 2016, when the balance had reached $1,035,809, the Regulating District credited Saratoga for an amount equal to $920,661, and Saratoga paid the balance due of $115,148 thereby settling all past balances due.

9. HYDROPOWER (WATER USAGE) AGREEMENTS

In the Hudson River area, the Regulating District has a Hydropower Agreement with a hydroelectric company effective July 1, 2003 and expiring June 30, 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 hydroelectric 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:

	Hudson River	Black River	Total
2017	$ 1,248,254	$ 70,697	$ 1,318,951
2018	1,285,701	72,818	1,358,519
2019	1,324,273	75,003	1,399,276
2020	1,364,001	77,253	1,441,254
Thereafter	1,404,921	79,571	1,484,492
	$ 6,627,150	$ 375,342	$ 7,002,492

For the years ended June 30, 2016 and 2015 the Hudson River area recognized water power income of $1,315,918 and $1,176,599, respectively, and the Black River area recognized water power income of $69,667 and $67,638, respectively under these hydropower agreements.

10. CONCENTRATIONS

For the year ended June 30, 2016, approximately 68% of assessment revenues and 81% of total operating revenues were provided by five statutory beneficiaries.

At June 30, 2016, approximately 75% of total gross receivables were due from two statutory beneficiaries.

For the year ended June 30, 2015, approximately 84% of assessment revenues and 81% of total operating revenues were provided by five statutory beneficiaries.

At June 30, 2015, approximately 95% of total gross receivables were due from two statutory beneficiaries.

11. LONG-TERM OBLIGATIONS

Long-term obligation activity for the years ended June 30, 2016 and 2015 is summarized below:

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

	Balance 6/30/2015	Additions	Reductions	Balance 6/30/2016	Classified as Current	Classified as Non-Current
Other postemployment benefits	$ 7,698,643	$ 1,655,030	$ (767,633)	$ 8,586,040	$ 8,586,040	$
Due to NYS retirement system	83,915	-	(4,084)	79,831	62,991	16,840
Net pension liability of NYS retirement system	159,790	599,601	-	759,391	-	759,391
Retirement incentive	58,680	-	(58,680)	-	-	-
Compensated absences	330,367	113,061	-	443,428	443,428	-
	$ 8,331,395	**$ 2,367,692**	**$ (830,397)**	**$ 9,868,690**	**$ 9,092,459**	**$ 776,231**

12. COMMITMENTS

The Regulating District had two operating lease agreements for office space. One lease agreement required quarterly payments of $3,995 ($1,332 per 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 required monthly payments of $2,546 through February 28, 2015. From March 1, 2015 the lease agreement required monthly payments of $2,643 through February 29, 2016.

The Regulating District entered into two new operating lease agreements for office space. One lease agreement requires quarterly payments of $3,995 ($1,332 per month) through July 31, 2018.

12. COMMITMENTS, CONTINUED

The second lease requires monthly payments of $2,693 through February 28, 2017, and $2,742 through February 28, 2018.

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

June 30, 2017	$48,488
2018	$37,913
2019	$ 1,332

Total rent expense recognized by the Regulating District under the terms of all of its office lease agreements was $47,343 and $21,951 during the years ended June 30, 2016 and 2015, respectively. The decrease in rent expense was due to a credit for prior rent amounts due that was recognized during the year ended June 30, 2015.

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, 2016 and 2015, the Regulating District had a liability related to the termination benefits of $0 and $58,680, respectively.

14. EMPLOYEE SALARY CHANGES

Union employees

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. During the year ended June 30, 2015, a new collective bargaining agreement with the CSEA was finalized covering the period from July 1, 2012 to June 30, 2016. The new collective bargaining agreement remained substantially unchanged except for an approved annual salary increase from 1.5% - 2%.

14. EMPLOYEE SALARY CHANGES, CONTINUED

Exempt employees

For all non-union employees, the Regulating District has been operating under a New York State imposed salary freeze (of general increases and step advancements) limited to the Regulating District's management and confidential (nonunion) employees since July 2009. Effective April 2015 the salary freeze was lifted. The freeze and related lift did not affect job promotions or changes in job responsibilities.

15. RESTATEMENT OF JUNE 30, 2014 CONSOLIDATED FINANCIAL STATEMENTS

Due to the implementation of GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions"*, and GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date*" the 2014 consolidated financial financials have been restated to conform to the new accounting and reporting requirements. The 2014 consolidated financial statements reflect the Regulating District's required net proportionate share of the ERS' net pension liability of $213,740 under GASB Statement No. 68, and has been treated as a cumulative effect of change in accounting principle. Therefore, this item only impacts the Regulating Districts' Consolidated Financial (Net) Position and does not impact the Consolidated Statement of Activities or its Consolidated Statement of Cash Flows. In regards to GASB Statement No. 71, there were no contributions made subsequent to the measurement date for the 2014 fiscal year.

The summary of the affected accounts are as follows:

15. RESTATEMENT OF JUNE 30, 2014 CONSOLIDATED FINANCIAL STATEMENTS, (CONTINUED)

HUDSON RIVER AREA

Accounts per Statement of Net Position	Original 2014	Restated 2014
Total liabilities	$ 9,492,647	$ 9,667,914
Total unrestricted fund balance	$ (7,351,929)	$ (7,527,196)
Total net position	$ (4,554,684)	$ (4,729,951)

BLACK RIVER AREA

Accounts per Statement of Net Position	Original 2014	Restated 2014
Total liabilities	$ (1,057,083)	$ (1,018,610)
Total unrestricted fund balance	$ 1,588,523	$ 1,550,050
Total net position	$ 1,958,559	$ 1,920,086

CONSOLIDATED

Accounts per Statement of Net Position	Original 2014	Restated 2014
Total liabilities	$ 8,435,564	$ 8,649,304
Total unrestricted fund balance	$ (5,763,406)	$ (5,977,146)
Total net position	$ (2,596,125)	$ (2,809,865)

16. SUBSEQUENT EVENTS

The Regulating District has evaluated subsequent events from the statements of net position date through the date the financial statements were available to be issued, October 30, 2016, and has determined that there were no events that would have a material impact on the financial statements except from those events previously disclosed in the notes the financial statement.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
COMBINING SCHEDULE OF NET POSITION
AS OF JUNE 30, 2016

SCHEDULE I

	Hudson River	Black River	Total Regulating District
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 2,501,529	$ 1,281,378	$ 3,782,907
Accounts receivable, net	852,544	26,966	879,510
Intercompany receivable (payable)	(2,611,748)	2,611,748	-
Prepaid expenses	940,017	86	940,103
TOTAL CURRENT ASSETS	**1,682,342**	**3,920,178**	**5,602,520**
CAPITAL ASSETS, NET	2,563,942	348,684	2,912,626
TOTAL ASSETS	**4,246,284**	**4,268,862**	**8,515,146**
DEFERRED OUTFLOWS OF RESOURCES	1,248,223	274,001	1,522,224
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 5,494,507**	**$ 4,542,863**	**$ 10,037,370**
LIABILITIES			
CURRENT LIABILITIES			
Accounts and accrued expenses payable	$ 7,204	$ 6,248	$ 13,452
Compensated absences	321,609	121,819	443,428
Current portion due to New York State Retirement System	62,991	-	62,991
Other post employment benefits	6,540,111	2,045,929	8,586,040
TOTAL CURRENT LIABILITIES	**6,931,915**	**2,173,996**	**9,105,911**
NON-CURRENT LIABILITIES			
New York State Retirement System payable, net of current portion	16,840	-	16,840
Proportionate share of NYS Retirement net pension liability	622,701	136,690	759,391
TOTAL NON-CURRENT LIABILITIES	**639,541**	**136,690**	**776,231**
TOTAL LIABILITIES	**7,571,456**	**2,310,686**	**9,882,142**
NET POSITION			
Net investment in capital assets	2,563,942	348,684	2,912,626
Unrestricted	(4,640,891)	1,883,493	(2,757,398)
TOTAL NET POSITION	**$ (2,076,949)**	**$ 2,232,177**	**$ 155,228**

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
COMBINING SCHEDULE OF ACTIVITIES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE II

	Hudson River	Black River	Total Regulating District
OPERATING REVENUE			
Assessments	$ 5,816,515	$ 1,151,618	$ 6,968,133
New York State assessments	853,278	250,000	1,103,278
Water power service	1,315,918	69,667	1,385,585
Permit fees	434,103	-	434,103
Other	2,433	-	2,433
TOTAL OPERATING REVENUE	**8,422,247**	**1,471,285**	**9,893,532**
OPERATING EXPENSES			
Real estate taxes	2,188,535	47,440	2,235,975
Personnel services and employee benefits	2,416,899	561,709	2,978,608
Bad debt	-	29,803	29,803
Contractual services	391,304	512,562	903,866
Depreciation	193,618	38,841	232,459
Materials and supplies	30,302	20,507	50,809
TOTAL OPERATING EXPENSES	**5,220,658**	**1,210,862**	**6,431,520**
TOTAL OPERATING INCOME	**3,201,589**	**260,423**	**3,462,012**
NON-OPERATING REVENUE (EXPENSE)			
Net interest (expense) income	(22,135)	44,549	22,414
Other income	13,279	6,890	20,169
TOTAL NON-OPERATING REVENUE (EXPENSE)	**(8,856)**	**51,439**	**42,583**
CHANGES IN NET POSITION	**3,192,733**	**311,862**	**3,504,595**
TOTAL NET POSITION - BEGINNING OF YEAR	(5,269,682)	1,920,315	(3,349,367)
TOTAL NET POSITION - END OF YEAR	**$ (2,076,949)**	**$ 2,232,177**	**$ 155,228**

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
SCHEDULE OF THE REGULATING DISTRICT'S PROPORTIONATE SHARE OF THE NEW YORK STATE AND LOCAL RETIREMENT SYSTEM'S NET PENSION LIABILITY
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

SCHEDULE III

(Dollar amounts in thousands)

	2016	2015	2014
The Regulating District's proportion of the net pension liability	0.00473%	0.00473%	0.00473%
The Regulating District's proportionate share of the net pension liability	$ 759	$ 158	$ 214
The Regulating District's covered-employee payroll	$ 1,423	$ 1,258	$ 1,207
The Regulating District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	53.38%	12.56%	17.73%
Plan fiduciary net position as a percentage of the total pension liability	90.70%	90.68%	97.15%

Notes:

- Schedule is intented to show information for 10 years. Additional years will be displayed as they become available.
- The amounts presented have as measurement date of March 31, 2016 and 2015, respectively.
- Covered-employee payroll represents payroll submitted to the New York State Employee Retirement System during the measurement periods of April 1, 2015 to March 31, 2016 and April 1, 2014 to March 31, 2015. Covered-employee payroll is the payroll of employees that are provided with pensions through the plan (also known as "penionable payroll"). Covered-employee payroll may differ from pensionable payroll. Covered-employee payroll includes the total payroll of covered employees on the accrual basis of accounting; this may include overtime and other compensation which have been excluded from the amount on which contributions to the pension plan are based.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)
SCHEDULE OF THE REGULATING DISTRICT'S CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

SCHEDULE IV

(Dollar amounts in thousands)

		2016		2015
Contracturally required contribution	$	284	$ $	238
Contributions in relation to the contracturally required contribution		284		-
Contributions deficiency (excess)	$	-	$ $	238
The Regulating District's covered-employee payroll	$	1,423	$ $	1,289
Contributions as a percentage of covered-employee payroll		19.96%		0.00%

Notes:

- Schedule is intented to show information for 10 years. Additional years will be displayed as they become available.
- The amounts presented have a measurement date of March 31, 2016 and 2015.
- Covered-employee payroll represents payroll for the fiscal year ended June 30, 2016 and 2015. Covered-employee payroll is the payroll of employees that are provided with pensions through the plan (also known as "penionable payroll"). Covered-employee payroll may differ from pensionable payroll. Covered-employee payroll includes the total payroll of covered employees on the accrual basis of accounting; this may include overtime and other compensation which have been excluded from the amount on which contributions to the pension plan are based.
- The contracturally required contributions for 2016 and 2015 is shown for presentation purposes only based on the 2016 and 2015 pension bill, it may or may not be exact to what would be presented under GASB 68 requirements.
- Contributions in relation to the contracturally required contribution for 2016 and 2015 is $0 because the Regulating District made the required contribution subsequent to the measurement date but before the fiscal year end, which is why it is shown as part of the Deferred Outflows of Resources on the Statement of Net Position.

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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, 2016, and the related notes to the consolidated financial statements, which collectively comprise the Regulating District's basic financial statements, and have issued our report thereon dated October 31, 2016.

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
October 31, 2016