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, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Other Matters
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Required Supplemental Information
The supplemental schedules required in accordance with the implementation of GASB 68 *"Accounting and Financial Reporting for Pensions"* on pages 39 and 40 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 Oct 26, 2018 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 26, 2018

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, 2018 and 2017.

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 9 and 10, respectively) provide both long-term and short-term information about the Regulating District's overall financial status. The Statements of Cash Flows (on page 11) provides information on the sources and uses of the Regulating District's cash through operating, capital and related financing and investing activities. The information contained in the MD&A should be considered in conjunction with the information contained in the 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 comprise the counties of Jefferson, Lewis, Herkimer, Oneida, and Hamilton that directly benefit from flood protection and flow augmentation, hydroelectric power generators and the State of New York that 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. A fourth source of revenue, also in the Hudson River area only, is the Federal Headwater Benefit fees levied on certain hydroelectric firms 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. 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, NYS Share and estimated interest income. Revenue from statutory beneficiaries, hydropower agreements, Federal Headwater Benefit fees, NYS Share 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		
	2018	2017	2016	2018	2017	2016
Operating revenues	$ 6,045	$ 6,009	$ 8,422	$ 1,257	$ 1243	$ 1,471
Operating expenses	(7,175)	(7,061)	(5,510)	(1,277)	(1,469)	(921)
Operating revenue (loss)	(1,131)	(1,052)	2,912	(20)	(226)	550
Net non-operating revenue (expense)	(1)	(20)	32	63	42	10
Changes in net position	$ (1,132)	$ (1,072)	$ 2,944	$ 44	$ (183)	$ 560

From fiscal year June 30, 2017 to June 30, 2018, operating revenues remained stable. Federal Headwater Benefit fees, pursuant to Section 10f of the Federal Power Act, are forecast at $477,571 per annum pending the satisfaction of prior year refunds due certain hydroelectric firms.

For fiscal year 2018, consolidated Regulating District expenses were relatively flat compared to fiscal year 2017. Increases in personnel services and benefits were largely offset by decreases in engineering and consulting services.

Operating expenses remained relatively consistent for the year ended June 30, 2018.

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, 2018 and 2017, respectively

Annual imbalances between revenues and expenses has led the Regulating District's legislative mandate to adopt three-year budgets. While multi-year budgets, with revenues assessed equally for three years, serve to stabilize assessments during the budget cycle, they also tend to present a surplus early in the multi-year cycle and a deficit in the final year. Fiscal year 2018 is the third and final year of the current three-year budgeting cycle. The budget for the next three-year budgeting cycle ending June 30, 2021 has been adopted by the Board

STATEMENT OF NET POSITION SUMMARY (in 000s)

Statement of Net Position Summary

	2018	2017	2016
Buildings	$ 937	$ 937	$ 937
Building improvements, furniture & equipment	1,785	1,778	1,759
Vehicles	543	543	550
Dam structures	14,105	14,105	14,118
Cost of capital assets	17,370	17,363	17,364
Less: Accumulated depreciation	(14,924)	(14,686)	(14,451)
Land	7	-	-
Net book value of capital assets	2,453	2,677	2,913
Deferred outflows of resources	(108)	61	1,522
Current assets	6,756	6,168	5,603
Total assets and deferred outflows of resources	9,101	8,906	10,038
Curernt liabilities	398	578	520
Long-term liabilities	10,891	9,428	9,362
Total liabilities	11,289	10,006	9,882
Net position:			
Net investment in capital assets	2,453	2,677	2,913
Unrestricted	(4,641)	(3,777)	(2,757)
Total net position	$ (2,188)	$ (1,100)	$ 156

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. 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 2018 the Regulating District increased their capital assets by approximately $ 15,331 due to the purchase of one piece of maintenance equipment and land.

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

On November 2, 2017, the Regulating District executed the Bond Anticipation Note with NYS Environmental Facilities Corporation in the amount of $3,246,867. The note will fund the spillway reconstruction project at the Conklingville Dam in Hadley, NY.

FINANCIAL CONDITION

The Hudson River Area's state and federal revenue stream remains stable and predictable for the foreseeable future.

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

POTENTIAL FUTURE ECONOMIC EVENT

The Regulating District received a positive decision regarding the last appeal made by Erie Boulevard Hydropower L.P. in U.S. District. There are no additional negative economic events anticipated through the next budget cycle.

Revenue receipts from the Regulating District's new apportionment in the Black River Area, which effectively ended years of litigation with National Grid (DBA Niagara Mohawk) by shifting a small percentage of the costs to operate to the local five (5) counties with properties along the Black and Moose Rivers, continues to proceed smoothly

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, 2018 AND 2017

		2018		2017
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	5,594,035	$	4,895,071
Accounts receivable, net		588,085		740,811
Prepaid expenses		573,460		532,015
TOTAL CURRENT ASSETS		**6,755,580**		**6,167,897**
CAPITAL ASSETS, NET		2,453,179		2,677,172
TOTAL ASSETS		**9,208,759**		**8,845,069**
DEFERRED OUTFLOWS OF RESOURCES		(107,692)		60,931
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	**9,101,067**	$	**8,906,000**
LIABILITIES				
CURRENT LIABILITIES				
Accounts and accrued expenses payable	$	1,061	$	114,617
Compensated absences		341,507		400,672
Current portion due to New York State Retirement System		55,780		62,991
TOTAL CURRENT LIABILITIES		**398,348**		**578,280**
NON-CURRENT LIABILITIES				
Note payable		487,000		-
New York State Retirement System payable, net of current portion		-		4,754
Proportionate share of NYS Retirement net pension liability		148,373		443,672
Other post employment benefits		10,255,452		8,979,260
TOTAL NON-CURRENT LIABILITIES		**10,890,825**		**9,427,686**
TOTAL LIABILITIES		**11,289,173**		**10,005,966**
NET POSITION				
Net investment in capital assets		2,453,179		2,677,172
Unrestricted		(4,641,285)		(3,777,139)
TOTAL NET POSITION	$	**(2,188,106)**	$	**(1,099,967)**

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, 2018 AND 2017

		2018		2017
OPERATING REVENUE				
Assessments	$	4,404,797	$	4,392,877
New York State assessments		1,102,906		1,103,922
Water power service		1,362,825		1,323,131
Permit fees		428,296		429,523
Other		2,796		2,215
TOTAL OPERATING REVENUE		**7,301,620**		**7,251,668**
OPERATING EXPENSES				
Personnel service and employee benefits		3,813,724		4,100,275
Real estate taxes		2,883,021		3,246,373
Contractual services		1,461,379		880,084
Depreciation and amortization		239,324		240,660
Materials and supplies		54,502		61,804
TOTAL OPERATING EXPENSES		**8,451,950**		**8,529,196**
TOTAL OPERATING LOSS		**(1,150,330)**		**(1,277,529)**
NON-OPERATING REVENUE				
Net interest income		62,191		22,333
TOTAL NON-OPERATING REVENUE		**62,191**		**22,333**
CHANGES IN NET POSITION		**(1,088,139)**		**(1,255,195)**
TOTAL NET POSITION - BEGINNING OF YEAR		(1,099,967)		155,228
TOTAL NET POSITION - END OF YEAR	$	**(2,188,106)**	$	**(1,099,967)**

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, 2018 AND 2017

		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from assessment beneficiaries	$	5,660,429	$	5,635,498
Cash received from water power service		1,362,825		1,323,131
Cash received from permit fees		428,296		429,523
Other cash receipts		2,796		2,215
Payments to vendors and suppliers for goods and services		(4,385,280)		(2,217,715)
Payments to employees		(2,903,962)		(4,077,616)
Proceed of NYS bond		487,000		-
NET CASH PROVIDED BY OPERATING ACTIVITIES		**652,104**		**1,095,036**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of land		(7,800)		-
Puchase of equipment		(7,531)		(5,205)
Investment income		62,191		22,333
NET CASH PROVIDED BY INVESTING ACTIVITIES		**46,860**		**17,128**
CHANGE IN CASH AND CASH EQUIVALENTS		**698,964**		**1,112,164**
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		4,895,071		3,782,907
CASH AND CASH EQUIVALENTS - END OF YEAR	$	**5,594,035**	$	**4,895,071**

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

		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Changes in net position	$	(1,088,139)	$	(1,255,195)
Investment income		(62,191)		(22,333)
Changes in net position, net		**(1,150,330)**		**(1,277,528)**
Adjustments to reconcile changes in net position, to net cash flow from operating activities:				
Depreciation and amortization		239,324		240,660
Accounts receivable		152,726		138,699
Prepaid expenses		(41,445)		408,088
Deferred outflow of pension resources		168,623		1,461,293
Accounts and accrued expenses payable		(113,556)		101,165
Compensated absences		(59,165)		(42,756)
Due to New York State Retirement System		(11,965)		(12,086)
Proportionate net pension liability of the New York State Retirement System		(295,299)		(315,719)
Other postemployment benefits obligation		1,276,192		393,220
Bond Payable		487,000		-
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$**	**652,104**	**$**	**1,095,036**

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.

Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation, Continued

- **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.
- **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.

Recent Accounting Pronouncements

In August 2018 GASB issued Statement No. 90 (‘GASB 90”) “Majority Equity Interests – An Amendment of GASB Statements No. 14 and 61”. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In June 2018 GASB issued Statement No. 89 ('GASB 89") "Accounting for Interest Cost Incurred Before the End of a Construction Period". The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In April 2018 GASB issued Statement No. 88 ('GASB 88") "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements". The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of GASB 88 are effective for reporting periods beginning after June 15, 2018.

In June 2017 GASB issued Statement No. 87 ("GASB 87") "Leases". The objective of GASB 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019.

In May 2017 GASB issued Statement No. 86 ("GASB 86") "Certain Debt Extinguishments Issues". The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017.
In March 2017 GASB issued Statement No. 85 ("GASB 85") "Omnibus 2017". The objective of GASB 85 is to address practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of GASB 85 are effective for reporting periods beginning after June 15, 2017.
In January 2017 GASB issued Statement No. 84 ("GASB 84") "Fiduciary Activities". The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of GASB 84 are effective for reporting periods beginning after December 15, 2018.

In November 2016 GASB issued Statement No. 83 ("GASB 83") "Certain Asset Retirement Obligations". GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of GASB 83.

GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. GASB 83 requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

GASB 83 also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. GASB 83 requires similar disclosures for a government's minority shares of AROs.

The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018.

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, 2018 and 2017, 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 $588,085 and $740,811 at June 30, 2018 and 2017, respectively, are recorded net of the allowance for doubtful accounts of $1,313,080 and $1,307,448 at June 30, 2018 and 2017, respectively.

The Regulating District continuously monitors outstanding accounts receivable for collectability. During the years ended June 30, 2018 and 2017, the Regulating District recognized $0 in bad debt expense based on the status of its doubtful accounts.

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 2018 and 2017 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, 2018, the Regulating District has a deferred outflow of resources of $107,692 related to the pension plan, and a deferred inflow of $60,931 in June 30, 2017.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pensions, Continued

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 recognize 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, 2018 and 2017 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.

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, 2018	$	223,950	$	341,112
June 30, 2017	$	108,114	$	122,541

The Regulating District's cash deposits that were secured by the FDIC at June 30, 2018 and 2017 were $341,112 and $122,451, respectively.

Deposits held in Short Term Investment Pools (STIP), held by the NYS Comptroller's Office, totaled $5,369,835 and $4,683,707 at June 30, 2018 and 2017, respectively.

A summary of the carrying value of cash and deposits as of June 30, 2018 and June 30, 2017 are as follows:

		2018		**2017**
Cash	$	223,950	$	108,114
STIP funds		5,369,835		4,786,707
Petty cash		250		250
	$	**5,594,035**	**$**	**4,895,071**

4. CAPITAL ASSETS

Capital assets consisted of the following at June 30:

	2017	Additions	Retirements and Disposals	2018
Hudson River Area:				
Dam structures	$ 12,104,830	$ -	$ -	$ 12,104,830
Building and improvements	1,920,454	-	-	1,920,454
Office and other equipment	270,588	7,531	-	278,119
Vehicles	410,161	-	-	410,161
Total at cost	14,706,033	7,531	-	14,713,564
Less: accumulated depreciation				
Dam structures	(10,720,939)	-	-	(10,720,939)
Building and improvements	(888,964)	(169,058)	-	(1,058,022)
Office and other equipment	(204,861)	(14,759)	-	(219,620)
Vehicles	(523,941)	(16,868)	-	(540,809)
Less: total accumulated depreciation	(12,338,705)	(200,685)	-	(12,539,390)
Total Hudson River Area depreciable assets, net	2,367,328	(193,154)	-	2,174,174
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
Land	-	7,800	-	7,800
Total at cost	2,663,292	7,800	-	2,671,092
Less: accumulated depreciation:				
Dam structures	(1,923,712)	-	-	(1,923,712)
Building improvements	(178,706)	(9,810)	-	(188,516)
Equipment	(77,240)	(3,850)	-	(81,090)
Vehicles	(173,790)	(24,979)	-	(198,769)
Less: total accumulated depreciation	(2,353,448)	(38,639)	-	(2,392,087)
Total Black River Area depreciable assets, net	309,844	(30,839)	-	279,005
Total capital assets, net	**$ 2,677,172**	**$ (223,993)**	**$ -**	**$ 2,453,179**

4. CAPITAL ASSETS, CONTINUED

	2016	Additions	Retirements and Disposals	2017
Hudson River Area:				
Dam structures	$ 12,104,830	$ -	$ -	$ 12,104,830
Building and improvements	1,920,454	-	-	1,920,454
Office and other equipment	265,383	5,205	-	270,588
Vehicles	410,161	-	-	410,161
Total at cost	14,700,828	5,205	-	14,706,033
Less: accumulated depreciation				
Dam structures	(10,720,939)	-	-	(10,720,939)
Building and improvements	(888,964)	-	-	(888,964)
Office and other equipment	(179,252)	(25,609)	-	(204,861)
Vehicles	(347,732)	(176,209)	-	(523,941)
Less: total accumulated depreciation	(12,136,887)	(201,818)	-	(12,338,705)
Total Hudson River Area depreciable assets, net	2,563,941	(196,613)	-	2,367,328
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	(168,896)	(9,810)	-	(178,706)
Equipment	(73,390)	(3,850)	-	(77,240)
Vehicles	(148,609)	(25,181)	-	(173,790)
Less: total accumulated depreciation	(2,314,607)	(38,841)	-	(2,353,448)
Total Black River Area depreciable assets, net	348,685	(38,841)	-	309,844
Total capital assets, net	**$ 2,912,626**	**$ (235,454)**	**$ -**	**$ 2,677,172**

Depreciation expense charged to operations for the years ended June 30, 2018 and 2017 was as follows:

	2018	2017
Hudson River Area	$ 200,685	$ 201,819
Black River Area	38,639	38,841
Total depreciation expense	**$ 239,324**	**$ 240,660**

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

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, 2018.

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:

2018	$ 220,451
2017	$ 218,682
2016	$ 236,634

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, 2018, the Regulating District had a liability of $148,373 for its proportionate share of the net pension liability, as opposed to $443,672 at June 30, 2017. The net pension liability was measured as of March 31, 2018, 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, 2018 the Regulating District's proportion was 0.0045972%, which was approximately the same as its proportion measured as March 31, 2017. For the year ended June 30, 2018, the Regulating District recognized pension expense of $1,398,964 under GASB 68. At June 30, 2018, 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	$ 52,920	$ 43,731
Changes of assumptions	98,383	-
Net difference between projected and actual earnings on pension plan investments	215,500	425,374
Changes in proportion and differences between LG contributions and proportionate share of contributions	69,149	5,715
Contributions subsequent to the measurement date	-	-
	$ 435,952	**$ 474,820**

There is $43,731 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, 2018. 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:	
2019	$ 56,087
2020	45,335
2021	(96,387)
2022	(43,904)

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, 2018 and 2017 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, 2018 and 2017 was $55,780 and $67,745 respectfully.

Actuarial Assumptions

The total pension liability at March 31, 2018 and 2017 was determined by using an actuarial valuation as of April 1, 2017 and 2016, respectfully, with update procedures used to roll forward the total pension liability to March 31, 2018 and 2017, respectfully. The actuarial valuation used the following actuarial assumptions:

Significant actuarial assumptions for the Employee Retirement System used in the April 1, 2017 and 2016 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, 2017 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, 2018 are summarized below:

5. RETIREMENT SYSTEM, CONTINUED

Long Term Expected Rate of Return 2018

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	$1,122,868	$148,373	$(675,808)

5. RETIREMENT SYSTEM, CONTINUED

Pension plan fiduciary net position

The components of the net pension liability of the employers as of March 31, 2018, were as follows: (Rounded to the Thousands)

		2018
		Employees' Retirement System
Total pension liability	$	183,400,590
Plan net position		(180,173,145)
Total net pension liability	**$**	**3,227,445**
Ratio of plan net position to the total pension liability		98.2%
Total net pension liabilty	$	3,227,445
Regulating District allocation percentage		4.59725%
District's proportion of the total net pension	$	**148,373**

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 34 and 32 retired employees currently receiving benefits, respectively, at June 30, 2018 and 2017 (not including 5 and 6 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.

6. POSTEMPLOYMENT HEALTH CARE BENEFITS, CONTINUED

Funding Policy

The obligations of the Retirement Plan are established by action of the Regulating District pursuant to applicable collective bargaining and employment agreements. The required premium contribution rates of retirees range from 0%-25%, depending on when the employee was hired and if the employee is governed by a CSEA or a management exempt plan. The Regulating District will pay 100% of the premiums for the retiree and spouse for a management exempt employee, 100% of the premium for a Union employee, and 75% of the premium for a Union employee's spouse. The Regulating District pays the costs of administering the Retirement Plan. The Regulating District currently contributes enough money to the Retirement Plan to satisfy current obligations on a pay-as-you-go basis to cover annual premiums. The amounts paid during 2018 and 2017 were approximately $428,200 and $379,836, 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, 2018		June 30, 2017
Annual required contribution (ARC) *	$	1,908,056	$	1,838,646
Interest on net OPEB obligation *		290,682		254,328
Adjustment to ARC *		(494,346)		(432,521)
Annual OPEB cost *		1,704,392		1,660,453
Contributions made		(428,200)		(379,836)
Increase in net OPEB obligation *		1,276,192		1,280,617
Net OPEB obligation - beginning of year		8,979,260		7,698,643
Net OPEB obligation - end of year *	$	10,255,452	$	8,979,260

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, 2018 using an employee valuation and measurement date as of July 1, 2017, therefore, the valuation does not include actual information on employee and/or salary changes during the 2018 and 2017 fiscal years. Actuarial information below are estimates except for paid health contributions.

Trend Information

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

		June 30, 2018		June 30, 2017		June 30, 2016
Annual OPEB cost *	$	1,704,392	$	1,660,453	$	1,655,030
Actual employer contribution	$	428,200	$	379,836	$	767,633
Employer contribution as a percent of the annual OPEB cost		25%		23%		46%
Net OPEB obligation at end of year *	$	10,255,452	$	8,979,260	$	7,698,643

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

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)	UAAL as a % of Covered Payroll (b-a)/(c)
7/1/2016	6/30/18	$ -	$ 23,497,514	$ 23,497,514	0%	1,881,690	1249%
7/1/2016	6/30/17	$ -	$ 22,566,097	$ 22,566,097	0%	1,793,156	1258%
7/1/2016	6/30/16	$ -	$ 21,637,638	$ 21,637,638	0%	1,422,745	1521%

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, 2016 valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Investment rate of return **	3.00%
Inflation rate	2.25%
Medical care cost trend rate	7.25% until next fiscal year, based on age of retirees. The rate is reduced by decrements to an ultimate rate of 3.89% by 2075.
Prescription drug trend rate	10.50% until next fiscal year. The rate is reduced by decrements to an ultimate rate of 3.89% by 2075.
Dental trend rate	2.5%

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, 2018 and 2017, there have been no designations of funds set aside for needed projects.

8. CONTINGENCIES

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, FERC orders in August and November 2015 established the dates upon which 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

8. CONTINGENCIES, CONTINUED

benefit fee assessments. One licensee, Erie Boulevard Hydropower LP, appealed the FERC orders and the USCA DC Circuit heard oral arguments on September 25, 2017.

On December 22, 2017, in a 3-0 decision, the court dismissed Erie's petition to vacate those orders. The court's opinion mirrored the arguments advanced in the Regulating District's intervening brief, finding that FERC correctly calculated the head water benefits and then exercised equitable discretion to find that the 2006 settlement precluded offsetting Erie's prior state law based assessment payments as credits against those head water benefits.

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 had 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. The agreement expired without a negotiated renewal and pursuant to Paragraph 50, it will continue in full force and effect for one additional five year period, commencing on the expiration date of the initial term and ending on the fifth anniversary.

Estimated annual required payments to the Regulating District under the terms of theseagreemtns are as follows for the years ending June30:

	Hudson River	Black River	Total
2019	$ 1,324,273	$ 76,127	$ 1,400,400
2020	1,364,001	78,411	1,442,412
2021	1,404,921	80,764	1,485,685
2022		83,187	83,187
2023		85,682	85,682
Thereafter		622,764	622,764
	$ 4,093,195	$ 1,026,935	$ 5,120,130

For the years ended June 30, 2018 and 2017 the Hudson River area recognized water power income of $1,288,915 and $1,251,374, respectively, and the Black River area recognized water power income of $73,910 and $71,757, respectively under these hydropower agreements.

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

10. CONCENTRATIONS

For the year ended June 30, 2018, approximately 69% of assessment revenues and 74% of total operating revenues were provided by five statutory beneficiaries.

At June 30, 2017, approximately 75% of total gross receivables were due from two statutory beneficiaries.

11. LONG-TERM OBLIGATIONS

Long-term obligation activity for the years ended June 30, 2018 and 2017 is summarized below:

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

	Balance 6/30/2017	Additions	Reductions	Balance 6/30/2018	Classified as Current	Non-Current
Other postemployment benefits	$ 8,979,260	$ 1,276,192	$	$ 10,255,452	$	$ 10,255,452
Due to NYS retirement system	67,745	-	11,965	55,780	55,780	-
Net pension liability of NYS retirement system	443,672	-	295,299	148,373	-	148,373
Compensated absences	400,672	-	59,165	341,507	341,507	-
	$ 9,891,349	**$ 1,276,192**	**$ 366,429**	**$ 10,801,112**	**$ 397,287**	**$ 10,403,825**

Note Payable

In November 2017 the Regulating District entered into a an agreement with New York State Environmental Facilities Corporation to be provided with financing for up to $3,064,067. The proceeds are to be used to finance costs associated with the reconstruction of the Conklingville Dam spillway ice sluice and repairs to the main spillway. The Regulating District receives advances up to the above amount that accrue interest at .99% per annum. The note maturity date is November 2020. As of June 30, 2018 the Regulating District has received $487,000 in advances and incurred $1,628 in interest expense.

12. COMMITMENTS

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.

The second lease requires monthly payments of $2,742 through February 28, 2018, and $1,777 through February 28, 2019.

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

12. COMMITMENTS, CONTINUED

June 30, 2019	$ 37,514
2020	$ 38,817

Total rent expense recognized by the Regulating District under the terms of all of its office lease agreements was $45,020 and $48,488 during the years ended June 30, 2018 and 2017, respectively.

13. 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, 2016. During the year ended June 30, 2017, a new collective bargaining agreement with the CSEA was finalized covering the period from July 1, 2016 to June 30, 2020. The new collective bargaining agreement remained substantially unchanged except for an approved annual salary increase from 2% - 2.5%.

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.

14. 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, 2018, 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, 2018

SCHEDULE I

		Hudson River		Black River		Total Regulating District
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$	3,773,788	$	1,820,247	$	5,594,035
Accounts receivable, net		559,372		28,713		588,085
Intercompany receivable (payable)		(2,460,314)		2,460,314		-
Prepaid expenses		564,530		8,930		573,460
TOTAL CURRENT ASSETS		**2,437,376**		**4,318,204**		**6,755,580**
CAPITAL ASSETS, NET		2,174,174		279,005		2,453,179
TOTAL ASSETS		**4,611,550**		**4,597,209**		**9,208,759**
DEFERRED OUTFLOWS OF RESOURCES		(88,307)		(19,385)		(107,692)
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	**4,523,243**	$	**4,577,824**	$	**9,101,067**
LIABILITIES						
CURRENT LIABILITIES						
Accounts and accrued expenses payable	$	-	$	1,061	$	1,061
Compensated absences		230,437		111,070		341,507
Current portion due to New York State Retirement System		55,780		-		55,780
TOTAL CURRENT LIABILITIES		**286,217**		**112,131**		**398,348**
NON-CURRENT LIABILITIES						
Note payable		487,000		-		487,000
Proportionate share of NYS Retirement net pension liability		121,666		26,707		148,373
Other post employment benefits		7,909,028		2,346,424		10,255,452
TOTAL NON-CURRENT LIABILITIES		**8,517,694**		**2,373,131**		**10,890,825**
TOTAL LIABILITIES		**8,803,911**		**2,485,262**		**11,289,173**
NET POSITION						
Net investment in capital assets		2,174,174		279,005		2,453,179
Unrestricted		(6,454,842)		1,813,557		(4,641,285)
TOTAL NET POSITION	$	**(4,280,668)**	$	**2,092,562**	$	**(2,188,106)**

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)
COMBINING SCHEDULE OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE II

	Hudson River	Black River	Total Regulating District
OPERATING REVENUE			
Assessments	$ 3,471,671	$ 933,126	$ 4,404,797
New York State assessments	852,906	250,000	1,102,906
Water power service	1,288,915	73,910	1,362,825
Permit fees	428,296	-	428,296
Other	2,796	-	2,796
TOTAL OPERATING REVENUE	**6,044,584**	**1,257,036**	**7,301,620**
OPERATING EXPENSES			
Real estate taxes	2,846,728	36,293	2,883,021
Personnel services and employee benefits	2,742,202	1,071,522	3,813,724
Contractual services	1,353,053	108,326	1,461,379
Depreciation	200,685	38,639	239,324
Materials and supplies	32,521	21,981	54,502
TOTAL OPERATING EXPENSES	**7,175,189**	**1,276,761**	**8,451,950**
TOTAL OPERATING INCOME	**(1,130,605)**	**(19,725)**	**(1,150,330)**
NON-OPERATING REVENUE (EXPENSE)			
Net interest (expense) income	(1,275)	63,466	62,191
TOTAL NON-OPERATING REVENUE (EXPENSE)	**(1,275)**	**63,466**	**62,191**
CHANGES IN NET POSITION	**(1,131,880)**	**43,741**	**(1,088,139)**
TOTAL NET POSITION - BEGINNING OF YEAR	(3,148,788)	2,048,821	(1,099,967)
TOTAL NET POSITION - END OF YEAR	**$ (4,280,668)**	**$ 2,092,562**	**$ (2,188,106)**

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)
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, 2018 AND 2017

SCHEDULE III

(Dollar amounts in thousands)

	2018	2017	2016
The Regulating District's proportion of the net pension liability	0.00456%	0.00472%	0.00473%
The Regulating District's proportionate share of the net pension liability	$ 179	$ 444	$ 759
The Regulating District's covered-employee payroll	$ 1,882	$ 1,793	$ 1,423
The Regulating District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.51%	24.77%	53.38%
Plan fiduciary net position as a percentage of the total pension liability	90.00%	90.75%	90.70%

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, 2018 and 2017, respectively.
- Covered-employee payroll represents payroll submitted to the New York State Employee Retirement System during the measurement periods of April 1, 2017 to March 31, 2018 and April 1, 2016 to March 31, 2017. 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 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)
SCHEDULE OF THE REGULATING DISTRICT'S CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

SCHEDULE IV

(Dollar amounts in thousands)

		2018		2017
Contractually required contribution	$	222	$	282
Contributions in relation to the contractually required contribution		222		282
Contributions deficiency (excess)		-		-
The Regulating District's covered-employee payroll	$	1,882	$	1,793
Contributions as a percentage of covered-employee payroll		11.80%		15.73%

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, 2018 and 2017.
- Covered-employee payroll represents payroll for the fiscal year ended June 30, 2018 and 2017. 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 2018 and 2017 is shown for presentation purposes only based on the 2018 and 2017 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 2018 and 2017 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.

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

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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, 2018, 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 26, 2018.

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.

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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, 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 26, 2018

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