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**Fishers Island Ferry District
A Component Unit of
the Town of Southold, New York**

**Financial Statements
Internal Control Reports
and Compliance Reports**

For the Year Ended December 31, 2010

**Fishers Island Ferry District
Financial Statements
For the Year Ended December 31, 2010**

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Independent Auditors' Report

Board of Commissioners
Fishers Island Ferry District
Fishers Island, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Fishers Island Ferry District, a component unit of the Town of Southold, New York as of and for the year ended December 31, 2010, which collectively comprise the Fishers Island Ferry District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fishers Island Ferry District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Because of the pervasiveness of the internal control and reconciliation issues over the revenues, we were unable to obtain sufficient audit evidence to satisfy ourselves as to the completeness of the Ferry Operations revenue.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to opine on the completeness of the Ferry Operations revenue, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fishers Island Ferry District as of December 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

Independent Auditors' Report (Continued)

As described in Note 1, the Ferry District has implemented authoritative accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB) *Statement 54, Fund Balance Reporting, Governmental Fund Type Definitions* and *Statement 59, Financial Instruments Omnibus*. In addition, the Ferry District made a number of corrections to the opening balances in these financial statements. This is also included in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2011 on our consideration of the Fishers Island Ferry District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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 financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fishers Island Ferry District's basic financial statements. The combining and individual fund financial statements and supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such combining and individual fund financial statements and supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Marion + Company

August 26, 2011

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2010**

Our discussion and analysis of Fishers Island Ferry District's (the Ferry District) financial performance provides an overview of the Ferry District's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the Ferry District's financial statements, which begin with Exhibit 1.

FINANCIAL HIGHLIGHTS

- The Ferry District's net assets increased \$40,432 in 2010 compared to a decrease in 2009 of \$349,740.
- The Ferry District's unrestricted net assets increased from a deficit of \$309,278 in 2009 to a positive \$8,993 in 2010.
- Fund balance, a measure of the Ferry District's short term health, increased by \$356,453 in 2010.
- Total ferry fees were back to the 2007 and 2008 levels after a significant drop revenue in 2009, representing lost revenue of 9.2%.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the Ferry District as a whole and present a longer-term view of the Ferry District's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Ferry District's operations in more detail than the government-wide statements by providing information about the Ferry District's most significant funds.

Reporting the Government as a Whole

Our analysis of the Ferry District as a whole begins with Exhibit 1. One of the most important questions asked about the Ferry District's finances is, "Is the Ferry District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Ferry District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Ferry District's *net assets* and changes in them. You can think of the Ferry District's net assets—the difference between assets and liabilities—as one way to measure the Ferry District's financial health, or *financial position*. Over time, *increases or decreases* in the Ferry District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Ferry District's property tax base and the condition of the Ferry District's assets, to assess the *overall health* of the Ferry District.

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2010**

In the Statement of Net Assets and the Statement of Activities, the Ferry District shows the following activity:

- Governmental activities—The Ferry District's basic services are reported here. Ferry fees, property taxes, state and federal grants, and rental fees finance most of these activities.

Reporting the Ferry District's Most Significant Funds

Our analysis of the Ferry District's major funds begins in the section titled "The Ferry District's Funds". The fund financial statements begin with Exhibit 3 and provide detailed information about the most significant funds—not the Ferry District as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Commissioners establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

- *Governmental funds*—The Ferry District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Ferry District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Ferry District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

THE FERRY DISTRICT AS A WHOLE

The Ferry District's combined net assets increased by \$40,432 from a year ago - increasing from \$8,803,772 to \$8,844,204. Last year (2009) the net assets decreased by \$349,740. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Ferry District.

The \$40,432 increase in net assets was after \$579,655 of depreciation. Depreciation is a non-cash expenditure. The cash generated this year was \$621,797 (\$42,142 plus \$579,655). This was used to pay down the principal on long-term debt in the net amount of \$211,882 and to increase the balance of cash in the bank by \$376,197 (included in current and other assets).

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2010**

**Table 1
Change in Net Assets (on Exhibit 1)**

	2010	Change During Year		2009
		Dollars	Percent	
Current and other assets	\$ 871,138	\$ 272,452	45.51%	\$ 598,686
Capital assets	11,660,211	(552,839)	-4.53%	12,213,050
Total assets	12,531,349	(280,387)	-2.19%	12,811,736
Long-term debt outstanding	3,373,236	(211,882)	-5.91%	3,585,118
Other liabilities	313,909	1,436	0.46%	312,473
Total liabilities	3,687,145	(210,446)	-5.40%	3,897,591
Net assets:				
Invested in capital assets, net of related debt	8,835,211	(277,839)	-3.05%	9,113,050
Unrestricted	8,993	318,271	-102.91%	(309,278)
Total net assets	\$ 8,844,204	\$ 40,432	0.46%	\$ 8,803,772

As discussed earlier, the Ferry District increased its net assets by \$40,432 in 2010 when in 2009 the net assets decreased by \$349,740. Below is a comparison of the income statements between the two years:

**Table 2
Change in Net Assets (on Exhibit 2)**

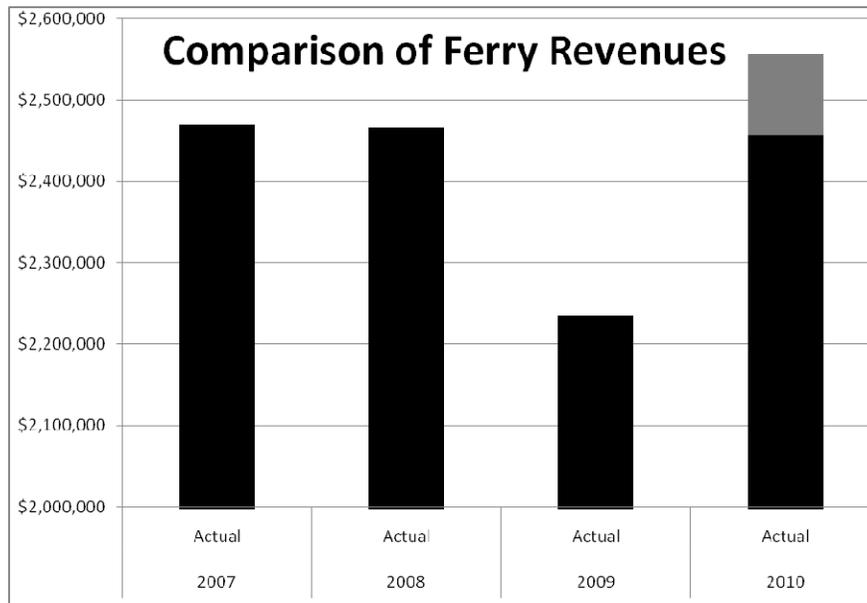
	2010	Change During Year		2009
		Dollars	Percent	
Revenues				
Program revenues:				
Charges for services	\$ 2,662,572	\$ 333,434	14.32%	\$ 2,329,138
Operating grants and contributions	192,851	109,899	132.49%	82,952
General revenues:				
Property taxes	750,098	159,978	27.11%	590,120
Interest and investment earnings	1,835	743	68.04%	1,092
Gain (loss) on disposal of equipment	(2,846)	(2,846)	0.00%	-
Miscellaneous revenues	32,709	12,182	59.35%	20,527
Total revenues	3,637,219	613,390	20.29%	3,023,829
Program expenses				
General government	156,630	30,362	24.05%	126,268
Ferry operations	3,099,484	102,531	3.42%	2,996,953
Airport	214,250	111,773	109.07%	102,477
Theater	11,375	(7,373)	-39.33%	18,748
Rental activities	22,331	13,950	166.45%	8,381
Interest on long-term debt	92,717	(28,025)	-23.21%	120,742
Total expenses	3,596,787	223,218	6.62%	3,373,569
Increase (decrease) in net assets	\$ 40,432	\$ 390,172	111.56%	\$ (349,740)

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2010**

Management took a number of steps to make sure that the 2010 year would be better than the 2009 year. These included:

- The property tax levy was increased by \$160,000 going from \$590,000 to \$750,000. This was done to partially protect against another bad year.
- Charges for services increased by \$333,434. In 2009 the ferry fees were down \$229,052 or 9.2% from 2008. This is believed to be due to lower ridership in the poor economy. Although the passenger count was still down in 2010, the Ferry district received \$99,444 for a one-time asphalt paving project (shown in grey in the chart below).

Below is a comparison of the total ferry fees received in each of the last four years. The increase in revenue in 2010 is due to the one time asphalt paving project (shown in grey). It is expected to decrease again in 2011.



Although operating grants and contributions increased by \$109,899, the grant expenditures also increased. These are included in the program expenses for the airport. This did not have a significant effect on the net income between the two years.

Governmental Activities

Table 3 presents the cost of each of the Ferry District's governmental programs as well as each governmental program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Ferry District's taxpayers by each of these functions.

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2010**

**Table 3
Governmental Type Activities**

	Total Cost of Services			Incr. Decr.	Net Cost (Income from) of Services			Incr. Decr.
	2010	2009			2010	2009		
Governmental Activities								
General Government	\$ 156,630	\$ 126,268	24.05%	\$ 148,347	\$ 126,268	17.49%		
Ferry Operations	3,099,484	2,996,953	3.42%	518,049	738,975	-29.90%		
Airport	214,250	102,477	109.07%	21,399	17,825	20.05%		
Theater	11,375	18,748	-39.33%	3,177	9,514	-66.61%		
Rental Activities	22,331	8,381	166.45%	(42,325)	(51,845)	-18.36%		
Interest on Long-Term Debt	92,717	120,742	-23.21%	92,717	120,742	-23.21%		
Totals	\$ 3,596,787	\$ 3,373,569	6.62%	\$ 741,364	\$ 961,479	-22.89%		

The most significant changes in the total cost of services are with the airport. You can see that the total cost increased significantly, but the net cost did not. This is because these costs are supported by grant revenue. That is not shown when calculating the total cost, but is shown when calculating the net cost.

The most significant changes in the net cost of services are with the ferry operations. As discussed earlier, charges for ferry services increased dramatically while the costs were relatively stable. This caused the net cost of services to drop 29.90% from \$738,975 to \$518,049.

THE GOVERNMENT'S FUNDS

While the year showed a \$40,432 increase in net assets on Exhibit 2, it showed a much larger increase in fund balance of \$356,453 in the governmental funds as presented in Exhibits 3 and 4. The difference for this is primarily the treatment of long-term debt and capital assets. In the fund balance principal payments on long-term debt are a reduction in fund balance when the payments on the debt are made. Debt payments are never a direct reduction in net assets on the government-wide statements. Likewise, purchases of capital assets are a reduction in fund balance when the purchase is made. Capital asset purchases are never a direct reduction in net assets on the government-wide statements.

General Fund Budgetary Highlights

Over the course of the year, the Board of Commissioners can revise the Ferry District budget with additional appropriations and budget transfers. Additional appropriates increase the total budget. Transfers do not increase the total budget, but instead pull appropriations from one department that needs additional funding from other departments that might have excess funding. Below is a summarized view of the final budget and actual results for the General Fund:

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2010**

**Table 4
General Fund - Budget Summary**

	Final		
	Budget	Actual	Variance
Revenues			
Ferry	\$ 2,352,425	\$ 2,581,435	\$ 229,010
Property Tax	750,000	750,098	98
Property Management	73,000	72,854	(146)
Other	-	10,638	10,638
Total Revenues	3,175,425	3,415,025	239,600
Expenditures			
General Government	271,200	247,784	23,416
Transportation	2,126,150	2,077,592	48,558
Miscellaneous	12,000	11,375	625
Employee Benefits	372,000	342,374	29,626
Debt Service	375,075	374,739	336
Total Expenditures	3,156,425	3,053,864	102,561
Increase (Decrease) in Fund Balance	\$ 19,000	\$ 361,161	\$ 342,161

The original budget called for expenditures of \$2,853,000. During the year \$303,425 of additional appropriations were made. Of the additional appropriations, \$239,425 came from the additional expected ferry revenues. The budgeted revenues for the ferry fees were \$2,705,000 in 2009. These were dropped to \$2,075,000 in the original 2010 year because at the time the budget was prepared, the ridership on the ferry was down approximately 20%. The remaining \$64,000 of additional appropriated would be financed from fund balance.

If the Ferry District's revenue and expenditures were to have hit the budget numbers exactly, the Ferry District would have increased its fund balance by \$19,000. Instead, after establishing an ad-hoc finance/budget committee to monitor the figures carefully, revenues exceeded the budget by \$239,600. Expenditures were \$112,473 less than the budget. As a result, the Ferry District added \$361,161 to its fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of this year, the Ferry District had \$17,824,107 invested government activity capital assets before accumulated depreciation. This amount represents a net increase (including additions and deductions) of \$22,946 from last year. More detailed information about the Ferry District's capital assets is presented in Note 5 to the financial statements.

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2010**

Debt

At year end, the Ferry District had \$2,825,000 in bonds outstanding. This is a decrease of \$275,000 from last year. The Ferry District issues bonds through the Town of Southold. Southold's general obligation bond rating continues to carry an Aa2 rating. More detailed information about the Ferry District's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Ferry District's elected and appointed officials considered many factors when setting the fiscal-year 2011 budget and rates including trying to keep the taxes stable, anticipating an accurate level of ridership, and keeping expenditures in line.

CONTACTING THE FERRY DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Ferry District's finances and to show the Ferry District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Board of Commissioners
Fishers Island Ferry District
P.O. Drawer H
Fishers Island, NY 06390

**Fishers Island Ferry District
Statement of Net Assets
December 31, 2010**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 624,683
Receivables, net of allowance for collection losses	216,486
Prepaid expenses	29,969
Capital assets, net of accumulated depreciation:	
Nondepreciable	41,717
Depreciable, net of accumulated depreciation	11,618,494
Total assets	12,531,349
Liabilities	
Accounts payable	132,298
Accrued wages and benefits	43,257
Deferred revenue	138,354
Noncurrent liabilities:	
Due within one year	1,025,953
Due in more than one year	2,347,283
Total liabilities	3,687,145
Net Assets	
Invested in capital assets, net of related debt	8,835,211
Unrestricted net assets	8,993
Total net assets	\$ 8,844,204

The notes to the financial statements are an integral part of this statement.

**Fishers Island Ferry District
Statement of Activities
For the Year Ended December 31, 2010**

	Program Specific Revenues				Net (Expense) Revenue	
	Charges for		Grants and Contributions			Total Government Activities
	Expenses	Services	Operating	Capital		
Functions/Programs						
Governmental activities:						
General governments	\$ 156,630	\$ 8,283	\$ -	\$ -	\$ (148,347)	
Ferry operations	3,099,484	2,581,435	-	-	(518,049)	
Airport	214,250	-	192,851	-	(21,399)	
Theater	11,375	8,198	-	-	(3,177)	
Rental activities	22,331	64,656	-	-	42,325	
Interest on long-term debt	92,717	-	-	-	(92,717)	
Total primary government	3,596,787	2,662,572	192,851	-	(741,364)	
General revenues:						
Property taxes, payments in lieu of taxes, interest and liens					750,098	
Interest and investment earnings					1,835	
Gain (loss) on disposal of equipment					(2,846)	
Miscellaneous					32,709	
Total general revenues					781,796	
Changes in net assets					40,432	
Net assets, beginning of the year					8,803,772	
Net assets, end of the year					<u>\$ 8,844,204</u>	

**Fishers Island Ferry District
Balance Sheet
Governmental Funds
December 31, 2010**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 615,153	\$ 9,530	\$ 624,683
Receivables	211,728	4,758	216,486
Due from other governmental funds	5,304	-	5,304
Prepaid expenditures	29,969	-	29,969
Total assets	\$ 862,154	\$ 14,288	\$ 876,442
Liabilities and fund balance			
Liabilities			
Accounts payable	\$ 125,346	\$ 6,952	\$ 132,298
Accrued payroll	43,257	-	43,257
Deferred revenue	163,285	-	163,285
Due to other governmental funds	-	5,304	5,304
Total liabilities	331,888	12,256	344,144
Fund balance			
Nonspendable	29,969	-	29,969
Assigned	-	9,530	9,530
Unassigned	500,297	(7,498)	492,799
Total fund balance	530,266	2,032	532,298
Total liabilities and fund balance	\$ 862,154	\$ 14,288	

Reconciliation of net assets to fund balances - total governmental funds:

Less: Long-term liabilities not due and payable in current period:	
Bonds, notes, capital leases payable and unamortized premiums on bond costs	(2,825,000)
Compensated absences and special termination benefits	(216,209)
Other post-employment benefits	(302,137)
Accrued interest payable	(29,890)
Plus:	
Deferred revenue not available to pay for current period expenditures	24,931
Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	11,660,211
Net intangible assets used in governmental activities are not financial resources and, recorded as deferred revenue in the funds	-
Net assets reported on the government-wide financial statements (Exhibit 1)	\$ 8,844,204

The notes to the financial statements are an integral part of this statement.

Fishers Island Ferry District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Ferry revenues	\$ 2,581,435	\$ -	\$ 2,581,435
Property taxes	750,098	-	750,098
Property management	72,854	-	72,854
Grants	-	192,851	192,851
Other	10,638	8,283	18,921
	<u>3,415,025</u>	<u>201,134</u>	<u>3,616,159</u>
Expenditures			
Current expenditures:			
General government	247,784	-	247,784
Transportation	1,797,225	-	1,797,225
Miscellaneous	11,375	5,493	16,868
Employee Benefits	342,374	-	342,374
Capital outlay	280,367	200,349	480,716
Debt service	1,124,739	-	1,124,739
	<u>3,803,864</u>	<u>205,842</u>	<u>4,009,706</u>
Excess (deficiency) of revenues over expenditures	<u>(388,839)</u>	<u>(4,708)</u>	<u>(393,547)</u>
Other financing sources (uses)			
Proceeds from long-term debt	750,000	-	750,000
	<u>750,000</u>	<u>-</u>	<u>750,000</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	361,161	(4,708)	356,453
Fund balance, beginning of the year	<u>169,105</u>	<u>6,740</u>	<u>175,845</u>
Fund balance, end of the year	<u>\$ 530,266</u>	<u>\$ 2,032</u>	<u>\$ 532,298</u>

Reconciliation of the statement of revenues, expenditures and changes in fund balance (above) to the statement of activities (Exhibit 2)

Net change in fund balances - total governmental funds (above)	\$ 356,453
Transactions involving the treatment of capital outlays:	
Plus: Capital outlays treated as expenditures here, but capitalized on Exhibit 2	30,688
Less: Depreciation/Amortization expense in Exhibit 2, but not in the fund statements	(579,655)
Net effects of various transactions involving fixed assets:	
Plus: Gain or (Loss) on disposal of fixed assets not reported in this statement	(2,846)
Less: Gross proceeds from the disposal of fixed assets not included in Exhibit 2	(1,025)
Transactions involving the treatment of long-term debt:	
Less: Long-term debt issued or incurred:	
Issuance of general obligation bonds	(750,000)
Plus: Principal repayments:	
General obligation bonds	1,025,000
Changes in other items not requiring the use of current financial resources:	
Compensated absences benefits payable	(11,554)
Accrued interest payable	7,026
Reduction in judgment payable	47,664
Post-employment benefits	(106,250)
Revenue in the Statement of Activities (Exhibit 2) that is deferred in this statement	
Insurance reimbursement	24,931
Changes in net assets of governmental activities (Exhibit 2)	<u>\$ 40,432</u>

The notes to the financial statement are an integral part of this statement.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

Note 1 - Summary of Significant Accounting Policies

The Fishers Island Ferry District was created in 1947 by a special act of legislation within the State of New York, known as the Ferry District Enabling Act. As a "district", much like a school district or fire district, the ferry is allowed to levy and collect taxes in addition to collecting fares, in order to offset its expenses. The tax levy is assigned to the property owners of Fishers Island and the collections are kept separate from Southold Town funds. Although the Ferry District income and expenses are handled separately from the town's general fund, the Southold Town Supervisor is the fiscal officer of the Ferry District and along with the Town Board, reviews, approves and executes all of the Ferry District's financial obligations, including payroll.

The Ferry District is controlled by a five member Board of Commissioners. Each Commissioner is elected independently from the populace of Fishers Island and serves a five year term. A chairman is elected on an annual basis. It is the duty of the Commission to oversee the operational, fiscal and administrative matters of the District. As the governing body of the District, all final decisions are resolved by the Board. The Manager is responsible for the administrative and fiscal matters of the District, including personnel associated with those matters. The Marine Operations Administrator and the Marine Operations Supervisor are responsible for the operation of the ferry system and the personnel associated with that operation.

A. Reporting entity

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government (or stand-alone entity), (2) organizations for which the primary government (or stand-alone entity) is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criterion, provided by the Government Accounting Standards Board (GASB), has been considered and there are no agencies or entities which should be presented with this government, although, the Fishers Island Ferry District is a component unit of the Town of Southold, New York.

B. Government-wide and fund financial statements

The *government-wide financial statements* (Exhibits 1 and 2) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* (if any), which rely to a significant extent on fees and charges for support.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Ferry District's policy is to use its restricted resources first. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate *fund financial statements* are provided for governmental funds and fiduciary funds (if any) (Exhibits 3, 4 and 5, if applicable). *Governmental activities*, activities which normally are supported by taxes and intergovernmental revenues, are reported in the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. *Fiduciary funds* are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the governments own programs.

C. Measurement focus, accounting basis, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Ferry District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, grant income, ferry fees, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Ferry District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

The Ferry District reports the following major governmental funds:

The *General Fund* is the Ferry District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Ferry District has elected not to follow subsequent private-sector guidance.

D. Assets, liabilities, and net assets

1) Deposits and investments

The Ferry District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the Ferry District are generally reported at fair value. Nonparticipating, interest-earning investment contracts, if any, are generally reported at cost plus accrued earnings.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Ferry District's deposits may not be returned to it. The Ferry District's policy for custodial credit risk is to invest in obligations allowable under the New York General Municipal Law Article 10. In general this includes deposits in allowable banks.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Ferry District does not have a formal credit risk policy.

Interest Rate Risk – Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Ferry District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Ferry District does not have a formal credit risk policy.

2) Receivables

Property taxes are assessed on property values as of July 1st. The tax levy is divided into two billings – the following December 1st and May 31st. This is used to finance the calendar year.

Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010

The billings are considered due on those dates, however, the actual due date for each respective billing is January 10th and May 31st. After this, the bill becomes delinquent and the applicable property is subject to lien, penalties and interest.

At May 31st, the county pays any unpaid taxes to the tax receiver and continues the collections process in the individual accounts.

Taxes collected in advance of the calendar year that they are levied to finance are considered unearned until that year starts. They are reported on the balance sheet as deferred revenue.

All receivables are shown net of an allowance for uncollectibles. The allowance is calculated using a formula based on prior experience.

3) Activity between funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in appropriate governmental funds to indicate that they are not available for appropriation and are not expendable financial resources.

4) Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5) Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (docks, wharfs, parking lots and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the Ferry District as assets with an initial, individual cost of more than the capitalization threshold for that asset type and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land is considered inexhaustible and, therefore, not depreciated. Property, plant, and equipment of the Ferry District is depreciated using the straight line method over the following estimated useful lives:

Assets	Years	Capitalization Threshold
Land	N/A	\$ 5,000
Buildings and improvements	20 to 40	\$ 5,000
Ferries	10 to 40	\$ 5,000
Vehicles	10	\$ 5,000
Other equipment	5 to 10	\$ 5,000
Infrastructure	20	\$ 5,000

6) *Compensated absences*

It is the Ferry District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated sick leave since the Ferry District has a policy to pay any amounts when employees separate from service with the Ferry District. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7) *Long-term obligations*

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

8) Fund equity

Fund equity for government-wide statements (Exhibit 1 and 2) is called Net Assets and is displayed in three components:

Invested in Capital Assets, Net of Related Debt – this consists of capital assets, including *restricted* capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – these are reported when constraints placed on net asset use are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or, (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – is the residual classification of Net Assets.

Fund equity for governmental funds (Exhibit 3 and 4) is called Fund Balance and is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent:

Nonspendable Fund Balance - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – includes amounts that have constraints placed on the use of resources. These constraints must be either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority and cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned Fund Balance – are amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

Unassigned Fund Balance - unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Subsequent Events

Subsequent events have been evaluated through the date of this report, August 26, 2011. This date represents the date the financial statements were available to be issued.

G. Changes in Financial Statements

Correction of Errors – The Ferry District made a number of corrections to its previously issued financial statements as summarized below:

	FUND BALANCE			AGENCY	NET
	General Fund	Special Aid	Recreation Fund	FUND Assets	ASSETS
Balance per Prior Audit Report	\$ 205,084	\$ (850,000)	Omitted	\$ 28,762	\$ 11,622,491
Corrections to Application of GAAP:					
Reclassify BANS to Long Term Debt		850,000			
Record Recreation Fund			6,740		6,740
Reclassify District Cash to General Fund	28,762			(28,762)	28,762
Remove improvements not owned by District					(4,499,366)
Remove related accumulated depreciation					1,848,516
To record OPEB in the amount on actuaries report					(98,787)
Corrections to Balances Reported:					
Correct balance of accrued interest payable					(8,081)
To correct balance in Automated Teller Machine	(6,340)				(6,340)
To report rent receivable	635				635
To remove fees posted to ATM machine in error	(273)				(273)
Record balance due on Fish ladder	(30,000)				(30,000)
To correct the balance of compensated absences					(31,758)
Remove one sided due from other fund entry	(28,763)				(28,767)
Corrected Beginning Balance	\$ 169,105	\$ -	\$ 6,740	\$ -	\$ 8,803,772

Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010

New Statements Implemented - The Ferry District implemented Governmental Accounting Standards Board (GASB):

- Statement 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* – This statement provides clearer fund balance classifications that can be more consistently applied. This resulted in no adjustment to beginning equity.
- Statement 59 – *Financial Instruments Omnibus* – This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This resulted in no adjustments to beginning equity.

Note 2 - Budgeting

A. Budget Basis

A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exception:

- **Long-Term Debt and Lease Financing** - Revenues and expenditures from refunding or renewing long-term debt or issuing lease financing are included in the budget as the net revenues or expenditures expected.

B. Budget Calendar

The Board of Commissioners prepares detailed estimates of the revenues and expenditures for the next calendar. These estimates are reviewed at a public hearing held on or about August 20th each year. After the public hearing, the Board of Commissioners meets to increase or decrease the annual estimates and prepares final budget estimates.

The Fishers Island Ferry District's Board of Commissioners submits its budget estimates for the subsequent calendar year to the Town of Southold, New York's Supervisor on or before September 20th. The Town Supervisor adds estimates of debt service and incorporates the Fishers Island Ferry District budget into his Tentative Budget and files this with the Town of Southold, New York's Town Clerk no later than September 30th. The Town Clerk presents the Tentative Budget to the Town of Southold, New York's Town Board on or before October 5th. The Town Board makes revisions and prepares a Preliminary Budget.

The Town Board holds a public hearing by the Thursday following the November election. The Town Board then considers the estimates and any other matters brought to their attention at a public meeting held subsequent to the public hearing and prior to the budget adoption. The Town Board adopts the budget no later than November 20th.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

C. Budget Control

As a rule, no expenditure may be made, or any liability incurred, unless an amount has been appropriated for the particular purpose. If, during the year, the Board of Commissioners or Town Board determines that sufficient revenues will not be generated to finance the total appropriations provided for in the original budget, the Board of Commissioners (subject to the approval of the Town Board) generally may reduce appropriations to prevent making expenditures of money available. An appropriation may not be reduced below the minimum amount required by law, nor generally be reduced by more than the unexpended balance less the outstanding and unpaid claims chargeable to it.

The Fishers Island Ferry District (subject to the approval of the Town Board) may make supplemental appropriations. These may be provided by transfer from the unexpended balance of an appropriation, from the appropriation for contingencies within a fund (if any), or by borrowing pursuant to the Local Finance Law. The expected unreserved fund balance at the end of the current year may be utilized for this purpose.

During the year \$64,000 of additional appropriations were made.

Note 3 – Deposits and Investments

A. Cash and Cash Equivalents

At the end of the year, the Ferry District had \$626,393 in cash and cash equivalents.

B. Custodial Credit Risk on Deposits

As of December 31, 2010, the carrying amount of the Ferry District's deposits with financial institutions was \$624,683. The bank balance of the deposits was \$609,869 and was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 263,898
Uninsured, but collateralized	<u>345,971</u>
Total Deposits	<u><u>\$ 609,869</u></u>

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

Note 4 - Receivables

Receivables as of year end for the Ferry District's individual major funds and nonmajor in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Special Aid Fund
Next year's property taxes held by Southold	\$ 138,354	\$ -
Ferry fees	44,496	-
Insurance reimbursement	24,931	-
Fuel tax reimbursement	14,239	-
Rent	832	-
Grant revenues	-	4,758
Gross receivables	222,852	4,758
Less: allowance for uncollectibles	(11,124)	-
Net total receivables	<u>\$ 211,728</u>	<u>\$ 4,758</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Taxes paid in advance	\$ -	\$ 138,354
Insurance reimbursement not received in 60 days	24,931	-
Total deferred/unearned revenue for governmental funds	<u>\$ 24,931</u>	<u>\$ 138,354</u>

Note 5 - Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 41,717	\$ -	\$ -	\$ 41,717
Capital assets being depreciated:				
Buildings and improvements	12,583,229	-	-	12,583,229
Ferries, machinery and equipment	2,871,692	30,688	(7,742)	2,894,638
Infrastructure	2,304,523	-	-	2,304,523
	17,759,444	30,688	(7,742)	17,782,390
Less: Accumulated depreciation:	(5,588,112)	(579,655)	3,871	(6,163,896)
	12,171,332	(548,967)	(3,871)	11,618,494
Capital assets, net	<u>\$ 12,213,049</u>	<u>\$ (548,967)</u>	<u>\$ (3,871)</u>	<u>\$ 11,660,211</u>

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

Depreciation expense in the amount of \$579,655 was charged to Ferry Operations.

Note 6 - Interfund Activities

Due to/from other funds

At year end, the Special Aid Fund owed the General Fund \$5,304 in temporary borrowings between funds. These are either expected to be paid off within one year or have no agreed payment terms.

Note 7 – Long-Term Debt

A. Changes in long-term liabilities

Long-term liability activity for the year December 31, 2010, was as follows:

	Opening Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds:					
Ferry Terminal/Wharf Bonds	\$ 2,250,000	\$ -	\$ (175,000)	\$ 2,075,000	\$ 175,000
Ferry Terminal/Wharf BANs	850,000	750,000	(850,000)	750,000	750,000
Total bonds payable	3,100,000	750,000	(1,025,000)	2,825,000	925,000
Accrued Interest on Bonds	36,912	99,780	(106,802)	29,890	29,890
Other Post Employment Benefits	195,887	123,261	(17,011)	302,137	17,011
Compensated Absences	204,655	11,554	-	216,209	54,052
Judgment	47,664	-	(47,664)	-	-
	<u>\$ 3,585,118</u>	<u>\$ 984,595</u>	<u>\$ (1,196,477)</u>	<u>\$ 3,373,236</u>	<u>\$ 1,025,953</u>

B. General Obligation Bonds

The Town of Southold, on behalf of the Ferry District, issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town of Southold. These bonds generally are issued as 20 year serial bonds with equal amounts of principal maturing each year. Payments on these bonds have been made out of the General Fund and are all charged to expenditures.

Bond anticipation notes have been, or are expected to be, rewritten when due at a market rate of interest. The bonds outstanding at year end were rewritten, in the amount of \$650,000 at an annual interest rate of .85%, on June 3, 2011.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

General obligation bonds and bond anticipation notes currently outstanding are as follows:

Purpose	Original Amount	Matures in	Interest Rates	Year End Balance
New London Ferry Terminal/Wharf	\$ 3,000,000	2021	3.75-4.00%	\$ 2,075,000
New London Ferry Terminal/Wharf	\$ 750,000	2011	0.97%	\$ 750,000
				<u>\$ 2,825,000</u>

Annual debt service requirements to maturity for general obligation bonds and bond anticipation notes are as shown in the following schedule.

	Principal	Interest
2011	\$ 925,000	\$ 85,788
2012	175,000	71,950
2013	175,000	65,388
2014	175,000	58,825
2015	175,000	52,263
2016	200,000	45,700
2017	200,000	38,200
2018	200,000	30,700
2019	200,000	23,200
2020	200,000	15,600
2021	200,000	8,000
Total	<u>\$ 2,825,000</u>	<u>\$ 495,614</u>

C. Other Post Employment Benefits

Other post employment benefits (OPEB) are generally insurance benefits earned by employees for service to the Fishers Island Ferry District, but paid after the employee leave or retires from the Ferry District. These are discussed in Note 10.

D. Compensated Absences

Compensated absences includes vacation and compensatory time earned by employees and carried over to the next calendar year. A maximum of 8 days is allowed to be carried into the next calendar year. Compensated absences also includes sick time that may be paid in cash when an employee leaves. Employees hired prior to May 1, 2009 are eligible for payment on up to 120 days of accumulated sick time. Employees hired after May 1, 2009 are eligible for payment on up to 40 days of accumulated sick time. Each of these benefits is describe more fully in the Ferry District's Employee Benefit Package.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

E. Claims and Judgments

In 2007, the Fishers Island Ferry District settled a claim on a civil suit by making annual payments for four years. The final payment, in the amount of \$47,664.44, was paid on March 1, 2010. The claim was dismissed with prejudice in April 2010 after full payment.

F. Debt Limitations

The New York State Constitution sets debt limits for most classes of local government, and establishes numerous other conditions related to the issuance and repayment of debt. In addition, the Local Finance Law (LFL) regulates the issuance of debt by local governments. Under the LFL, a local government, including the Fishers Island Ferry District, must authorize debt through a resolution of its local board. The Town of Southhold's Town Board must also authorize debt issued on behalf of the Fishers Island Ferry District through a resolution of the Town Board, which is subject to permissive referendum at the District level. Furthermore, a local government must comply with certain regulations and statutory provisions for the private or public sale of its debt. Other provisions set limits on the use of bond proceeds, refunding protocols, and the maximum number of years that certain projects, goods or services can be debt-financed based upon probable useful life.

Note 8 – Equity

A. Nonspendable Fund Balance

At year end, the General Fund had \$29,969 in nonspendable fund balance. This was the balance of prepaid expenses that was not in spendable form.

B. Assigned Fund Balance

At year end, the Recreation Fund had \$9,530 in assigned fund balance. This was monies that are earmarked for employee health and welfare needs.

C. Deficit Fund Balances

The Special Aid fund had a deficit fund balance of \$7,498.

Note 9 - Employee Retirement Systems And Pension Plan

A. Plan Description

The Fishers Island Ferry District, a component unit of the Town of Southold, participates in the New York Employees' Retirement System, and the Public Employee's Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

The New York State Retirement and Social Security Law (NYSRSSL) govern obligations of employers to contribute benefits to employees. As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the Systems and for the custody and control of their funds.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

B. Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Fishers Island Ferry District is not a separate employer under this plan. The Ferry District is included in the plan as a part of the Town of Southold. There are no separate financial statistics available for the Ferry District. The Ferry District contributes at an actuarially determined rate. The District's contributions made to the Systems were equal to 100% of the contributions required for each year. The district's portion of the contribution was \$108,814 in 2010.

Since 1989, the Systems' billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the Systems' fiscal years ending March 31, 1988, and 1989, (which otherwise were to have been paid on June 30, 1989, and 1990, respectively) over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The Town elected to make the full payment on December 15, 1993, by issuing serial bonds to replace this debt.

Note 10 – Other Post Employment Benefits (OPEB)

A. Plan Description

The Fishers Island Ferry District Other Post Employment Benefit Program is a single-employer defined benefit plan administered by the Fishers Island Ferry District. The benefits have been established by the Board of Commissioners. The plan does not issue a separate financial statement and is unfunded.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

Eligibility	The district provides medical, prescription drug and behavioral health to retirees and their covered dependents. The District pays a portion of the cost for retirees, disabled retirees, spouses and dependents. All active employees who retire or are disabled directly from the District and meet the eligibility criteria will participate. Eligibility criteria is age 55 and 10 years of service with the District (20 years if hired after July 1, 2003.)
Cost Sharing	Retirees contribute 10% of the premiums

B. Actuarial Assumptions and Methods

Latest Actuarial Date	January 1, 2010
Actuarial Cost Method	Projected Unit Credit
Discount Rate	4.25%
Medical Inflation	Initial rate of 10% in 2009 grading down to an ultimate inflation rate of 5% after 2015.
Amortization Method	Level percentage of projected payroll
Remaining amortization	27 years, closed
Healthy Mortality	Based on male and female pre-retirement mortality rates provided.
Turnover	Based on male and female rates for age and years of service provided.
Retirement	Based on male and female rates for age and years of service provided.
Disability	Not assumed.

C. Schedule of Funding Progress

There is no requirement for funding and the plan has not been funded. The District has not established a formal funding plan or a trust at this time.

Below is a schedule of funding progress. (Data in the table below is only presented since the year of transition.)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll ((b-a)/c)
1/1/2010	\$ -	\$ 1,278,581	\$ 1,278,581	0.00%	\$ 1,023,395	124.94%
1/1/2009	\$ -	\$ 1,146,345	\$ 1,146,345	0.00%	\$ 974,567	117.63%

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

D. Schedule of Employer Contributions

The schedule of employer contributions is as follows. (Data in the table below is only presented since the year of transition):

Year Ended December 31	Annual Required Contributions	Actual Contributions Made	Percentage Contributed
2010	\$126,611	\$ -	0%
2009	\$115,897	\$ -	0%
2008	\$112,446	\$ -	0%

E. Annual Required Contribution (ARC)

The Annual Required Contribution (ARC) for the OPEB program consists of two pieces:

Past Service Cost (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period is 30 years starting on January 1, 2009. The ARC is assumed to be paid at the beginning of the fiscal year. Interest is also calculated on the Unfunded Accrued Liability and added to the Annual Required Contribution.

Normal Cost is the present value of the portion of the projected benefit attributable to the current year (the cost of benefits earned each year should be accrued in that year), plus

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortized any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The annual calculation of Annual Pension Cost (APC) and Net Pension Obligation (NPO) is as follows. (Data in the table below is only presented since the year of transition):

Past Service Cost	\$ 73,095
Normal Cost	48,354
Interest	5,162
Annual Required Contribution (ARC)	\$ 126,611

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

F. Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Town's net OPEB obligation (asset):

Annual required contribution (ARC)	\$ 126,611
Interest on net OPEB obligation	8,325
Adjustment to annual required contribution	<u>(11,675)</u>
Annual OPEB cost	123,261
Contributions made	<u>17,011</u>
Increase (decrease) in net OPEB obligation	106,250
Net OPEB obligation (asset), beginning of year	<u>195,887</u>
Net OPEB obligation (asset), end of year	<u><u>\$ 302,137</u></u>

The Net OPEB Obligation history is as follows. (Data in the table below is only presented since the year of transition):

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation (Asset)
12/31/2010	\$ 123,261	\$ 17,011	13.8%	\$ 302,137
12/31/2009	\$ 114,335	\$ 17,235	15.1%	\$ 195,887
12/31/2008	\$ 112,446	\$ 13,659	12.1%	\$ 98,787

G. Other Disclosures

The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Note 11 - Risk Management

The Ferry District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Ferry District carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

**Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010**

Note 12 - Contingent Liabilities

A. Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Ferry District expects such amounts, if any, to be immaterial.

Note 13 - Commitments

In its December 22, 2010 Board of Commissioners meeting, the Fishers Island Ferry District committed to appropriate up to \$10,000 per year for the next three years to the Fishers Island Habitat proposal for the airport properties.

Note 14 – Subsequent Events

Article 2, Section 3-c of the New York General Municipal Finances has established a limit upon real property tax levies. This will be effective for the 2012 year. Essentially, this law will limit the tax levy to the prior year's tax levy times an allowable levy growth factor.

Note 15 - GASB Pronouncements Issued, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) is the standard setting board for governmental entities. The following are statements which have been approved by GASB, but are not yet effective:

- GASB Statement 60 – *Accounting and Financial Reporting for Service Concession Arrangements*. This statement provides guidance for governments that are either transferors or operators of service concession arrangements. A service concession arrangement is one in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant considerations, and the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011.
- GASB Statement 61 – *The Financial Reporting Entity: Omnibus* – This statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends the criteria for reporting component units, and clarifies the reporting of equity interests in legally separate organizations. This statement is effective for periods beginning after June 15, 2012.

Fishers Island Ferry District
Notes to the Financial Statements
For the Year Ended December 31, 2010

- GASB Statement 62 –*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* – This statement incorporates certain authoritative literature into the GASB codification. This statement is effective for periods beginning after December 15, 2011.

Fishers Island Ferry District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended December 31, 2010

	Original Budget	Transfers and Additional Appropriations	Final Budget	Actual	Variance
Revenues					
Ferry Revenues					
Ferry operations	\$ 2,075,000	\$ 239,425	\$ 2,314,425	\$ 2,539,280	\$ 224,855
Charters	14,000	0	14,000	17,326	3,326
U.S. mail	24,000	0	24,000	24,829	829
	<u>2,113,000</u>	<u>239,425</u>	<u>2,352,425</u>	<u>2,581,435</u>	<u>229,010</u>
Property Tax Revenues					
Property taxes	750,000	-	750,000	750,000	-
Interest and penalties - real estate taxes	-	-	-	98	98
	<u>750,000</u>	<u>-</u>	<u>750,000</u>	<u>750,098</u>	<u>98</u>
Property Management Revenue					
Rental income	73,000	-	73,000	64,656	(8,344)
Theater	-	-	-	8,198	8,198
	<u>73,000</u>	<u>-</u>	<u>73,000</u>	<u>72,854</u>	<u>(146)</u>
Other Revenues					
Interest earnings	-	-	-	1,835	1,835
ATM commissions	-	-	-	7,332	7,332
Other	-	-	-	1,471	1,471
	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,638</u>	<u>10,638</u>
Total revenues	<u>2,936,000</u>	<u>239,425</u>	<u>3,175,425</u>	<u>3,415,025</u>	<u>239,600</u>
Expenditures					
General Government					
Accounting and finance	10,000	10,000	20,000	18,400	1,600
Legal fees	66,000	13,000	79,000	77,367	1,633
Insurance	82,000	31,000	113,000	98,751	14,249
Insurance claims	5,000	-	5,000	2,979	2,021
Property taxes	50,000	-	50,000	46,132	3,868
MTA payroll tax	4,000	200	4,200	4,155	45
	<u>217,000</u>	<u>54,200</u>	<u>271,200</u>	<u>247,784</u>	<u>23,416</u>
Transportation					
Elizabeth airport	19,000	5,000	24,000	13,901	10,099
Dock repairs, capital	75,000	10,700	85,700	74,859	10,841
Ferry operations, personal services	1,200,000	39,300	1,239,300	1,239,277	23
Ferry operations, equipment	140,000	65,700	205,700	205,508	192
Ferry operations, contractual expense	428,000	121,050	549,050	523,388	25,662
Office expense, contractual expense	8,000	-	8,000	6,259	1,741
Commissioner fees	6,000	100	6,100	6,100	-
U.S. mail, contractual expense	8,000	300	8,300	8,300	-
	<u>1,884,000</u>	<u>242,150</u>	<u>2,126,150</u>	<u>2,077,592</u>	<u>48,558</u>
Miscellaneous					
Theater, contractual expense	5,000	7,000	12,000	11,375	625
	<u>5,000</u>	<u>7,000</u>	<u>12,000</u>	<u>11,375</u>	<u>625</u>
Employee Benefits					
NYS retirement	135,000	-	135,000	108,814	26,186
Social security	92,000	-	92,000	90,414	1,586
Unemployment insurance	5,000	-	5,000	3,301	1,699
Medical insurance	140,000	-	140,000	139,845	155
	<u>372,000</u>	<u>-</u>	<u>372,000</u>	<u>342,374</u>	<u>29,626</u>
Total general government expenditures	<u>2,478,000</u>	<u>303,350</u>	<u>2,781,350</u>	<u>2,679,125</u>	<u>102,225</u>

Fishers Island Ferry District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended December 31, 2010

	Original Budget	Transfers and Additional Appropriations	Final Budget	Actual	Variance
Debt Service					
Principal:					
Serial bond	175,000	-	175,000	175,000	-
Bond Anticipation Note	100,000	-	100,000	100,000	-
	<u>275,000</u>	<u>-</u>	<u>275,000</u>	<u>275,000</u>	<u>-</u>
Interest:					
Serial bond	85,000	75	85,075	85,075	-
Bond Anticipation Note	15,000	-	15,000	14,664	336
	<u>100,000</u>	<u>75</u>	<u>100,075</u>	<u>99,739</u>	<u>336</u>
Total debt service	<u>375,000</u>	<u>75</u>	<u>375,075</u>	<u>374,739</u>	<u>336</u>
Total expenditures	<u>2,853,000</u>	<u>303,425</u>	<u>3,156,425</u>	<u>3,053,864</u>	<u>102,561</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 83,000</u>	<u>\$ (64,000)</u>	<u>\$ 19,000</u>	<u>361,161</u>	<u>\$ 342,161</u>

Adjustments to Generally Accepted Accounting Principles (GAAP):

Bond Anticipation Note proceeds netted with retirement of Bond Anticipation Note	750,000
Retirement of Bond Anticipation Note netted with Bond Anticipation Note proceeds	<u>(750,000)</u>

Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses) - GAAP basis	<u>\$ 361,161</u>
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Notes to Required Supplementary Information: A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions: (1) Revenues and expenditures from refunding or renewing long-term debt or issuing lease financing are included in the budget as the net revenues or expenditures expected.

Fishers Island Ferry District Fund Descriptions

Special Revenue Funds:

Special Aid Fund – This fund is used to account for Federal and State funding for improvements to the Elizabeth Airport property.

Recreation Fund – This fund uses the revenue from two vending machines, one on the ferry and one in the New London terminal, to fund employee welfare and benefit activities.

**Fishers Island Ferry District
Combining Balance Sheet
Governmental Funds
December 31, 2010**

	Special Aid Fund		Recreation Fund		Total Other Governmental Funds
Assets					
Cash and cash equivalents	\$ -		\$ 9,530		\$ 9,530
Receivables	4,758		-		4,758
Total assets	\$ 4,758		\$ 9,530		\$ 14,288
Liabilities and fund balance					
Liabilities					
Accounts payable	\$ 6,952		\$ -		\$ 6,952
Due to other governmental funds	5,304		-		5,304
Total liabilities	12,256		-		12,256
Fund balance					
Nonspendable	-		-		-
Restricted	-		-		-
Committed	-		-		-
Assigned	-		9,530		9,530
Unassigned	(7,498)		-		(7,498)
Total fund balance	(7,498)		9,530		2,032
Total liabilities and fund balance	\$ 4,758		\$ 9,530		\$ 14,288

Fishers Island Ferry District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	Special Aid Fund	Recreation Fund	Total Other Governmental Funds
Revenues			
Grants	\$ 192,851	\$ -	\$ 192,851
Other	-	8,283	8,283
	<u>192,851</u>	<u>8,283</u>	<u>201,134</u>
Expenditures			
Current expenditures:			
Miscellaneous	-	5,493	5,493
Capital outlay	200,349	-	200,349
Debt service	-	-	-
	<u>200,349</u>	<u>5,493</u>	<u>205,842</u>
Excess (deficiency) of revenues over expenditures	<u>(7,498)</u>	<u>2,790</u>	<u>(4,708)</u>
Fund balance, beginning of the year	<u>-</u>	<u>6,740</u>	<u>6,740</u>
Fund balance, end of the year	<u>\$ (7,498)</u>	<u>\$ 9,530</u>	<u>\$ 2,032</u>

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

Board of Commissioners
Fishers Island Ferry District
Fishers Island, New York

We have audited the financial statements of the Fishers Island Ferry District as of and for the year ended December 31, 2010 and have issued our report thereon dated August 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fishers Island Ferry District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fishers Island Ferry District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fishers Island Ferry District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and others deficiencies that we consider to be significant deficiencies.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items MW-10-1, MW-10-2, MW-10-3, MW-10-4, MW-10-5, MW-10-6 and MW-10-7 to be material weaknesses.

Government Auditing Standards Report (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fishers Island Ferry District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings as items NC-10-1, NC-10-2 and NC-10-3.

We noted certain other matters that we reported to management of the Fishers Island Ferry District in two separate reports on irregularities dated June 30, 2011.

This report is intended for the information and use of the management, Board of Commissioners, others within the Fishers Island Ferry District, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marien + Company

August 26, 2011

**Fishers Island Ferry District
Schedule of Findings
For the Year Ended December 31, 2010**

Findings on Internal Controls

MW-10-1 – Entity Level Controls

Condition: Internal controls are a coordinated set of policies and procedures that management uses to achieve their objectives and meet their fundamental responsibilities for effectiveness, efficiency, compliance and financial reporting. The literature recognizes five sections of internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Report) in Internal Control – Integrated Framework. These five interrelated components include:

- *Control Environment* – A favorable control environment exists when management is knowledgeable about controls (entity wide and specific), is committed to establishing controls and communicates its support for internal controls to all individuals involved.
- *Risk Assessment* – This involves management’s continual identification and assessment of the potential risks that might prevent management from fulfilling its responsibilities and achieving its objectives.
- *Information and Communication Systems* – These are the systems used to assure that appropriate individuals have timely and accurate information to carry out their responsibilities.
- *Control Activities* – These are management’s response to the risks identified. These are the specific policies and procedures that are put in place to alert management of undesired actions in a timely manner.
- *Monitoring* – There is a responsibility of management to follow up on the controls that have been put in place to assure that they continue to function and function properly, effectively and efficiently.

The Fishers Island Ferry District does not have a framework established to deal with each of the interrelated entity level controls over and above the specific control policies and procedures that have been developed.

Recommendation: We recommend that as part of developing an accounting manual, the Fishers Island Ferry District consider the entity wide controls as discussed above.

**Fishers Island Ferry District
Schedule of Findings
For the Year Ended December 31, 2010**

MW-10-2 – Double Entry Accounting System and Proper Balancing

Condition: A double entry system of accounting, when used properly, assures that the records are complete and balanced. Although the Town of Southold keeps a double entry accounting system in summary, the detailed records providing information to the Town are not balanced as a double entry system.

For example, the Fishers Island office maintains the detailed records for accounts receivable:

- These records post the charges for each customer from the ferry booking system. The totals for the month between the two systems are not reconciled.
- These records post the cash received from each customer on their accounts. However, the cash account is not balanced to assure that all transactions are included and are included only once.

Recommendation: The Ferry District has a double entry accounting system, but is just not using it and balancing it appropriately. We recommend procedures be established to have this system complete and properly balanced.

MW-10-3 – Segregation of Duties - Revenues

Condition: The Ferry District does not maintain an adequate segregation of duties for proper internal control over the financial transactions in certain areas. Proper internal control relies on the following three aspects of processing transactions being performed by separate individuals: authorizing transactions, custody of assets, and record keeping. This weakness in internal controls could lead to funds being expended in a manner not consistent with the intentions of management. These weaknesses were noted in the following areas:

- **Ticket Sales** – Sales that are “no charge” are authorized and recorded by the same individual.
- **Ticket Books** – Ticket Books have the same individuals able to authorize the purchase, have custody of the physical books and cash collected and do the record keeping for the sale.
- **Freight Sales** – Freight is not always counted by the freight agent. This is not noted and corrected at the other end. Cash payments are collected and recorded by the same individual. Individuals are able to collect payment, record transactions and delete transactions from the system.
- **Recording Revenues** – Individuals are able to collect payment, record transactions and delete transactions from the system or write off transactions in the system.

**Fishers Island Ferry District
Schedule of Findings
For the Year Ended December 31, 2010**

Recommendation: The Ferry District should review the segregation of duties involved in all the cash receipts functions. The duties of the individuals involved should be analyzed and restructured as necessary to provide for a better system of checks and balances. A segregation of duties is not the only tool used in internal controls, where a segregation of duties is not possible, alternate internal control tools should be implemented. Once a better system has been devised, it should be written, approved by the Board of Commissioners and distributed to the individuals involved.

MW-10-4 – Controls over the Automated Teller Machine (ATM)

Condition: The Ferry District has an Automated Teller Machine. No controls have been implemented over the large quantity of cash that is handled for the machine. Cash, as the most liquid of assets, can easily be missing without a trail of who has it and when it went missing.

Recommendation: Controls should be implemented over the Automated Teller Machine. Because this is such a high risk area, all ATM machines are designed to assist with a segregation of duties, but the user must recognize the need and implement the controls.

MW-10-5 – Interim Reporting

Condition: The reporting from the Town of Southold is established by New York State Law and is less informative than the Board of Commissioners need for proper management. Instead of adapting the accounting system at Fishers Island for the Board of Commissioners needs, a third Excel based reporting system has been developed. By not using the accounting system to generate reports directly, the controls are even further weakened.

Recommendation: The accounting system in Fishers Island should be adapted to meet the needs of the Board of Commissioners and to translate into the accounts required to be maintained by New York State Law. As much as possible, this system should be used for all accounting and reporting to strengthen controls, increase the accuracy of data and to be more efficient. Extra schedules prepared in Excel or other programs should be avoided as much as possible.

**Fishers Island Ferry District
Schedule of Findings
For the Year Ended December 31, 2010**

MW-10-6 – Segregation of Duties – Expenditures

Condition: Once the Board of Commissioners approves invoices to be paid, the cash is transferred from the Fishers Island account and put into the Town of Southold's account. The Town of Southold prints the checks with the authorized signature printed on the checks at the same time. The same individual(s) that prints the checks can also reconcile the bank statement. Although there has been no issues noted, one individual could write an unauthorized check and it might not be noticed in a timely manner.

Recommendation: We recommend that the checks be issued from the Town of Southold in the same manner that they currently are, except written on the Fishers Island Ferry District's account directly. The bank statements and checks clearing should then be reviewed by the Ferry District personnel in a timely manner.

MW-10-7 – Documentation of the Components of Internal Control over Processes

Condition: The Fishers Island Ferry District has numerous internal controls in place over significant processes and accounts. Not all of these controls are formally documented. It is possible for controls to change over time or not be completely understood by the individuals involved in the processes.

Recommendation: We recommend that the Fishers Island Ferry District make a listing of its significant processes and accounts. Controls in each area should be documented in a procedures manual. Each of the procedures should be reviewed to determine if controls are adequate.

Findings on Compliance

NC-10-1 Non-collusion Statements

The enabling act states in Section 13:

All contracts for public work and all purchase contracts shall be let to the lowest responsible bidder after advertisement for bids where so required by section one hundred three of the general municipal law.

Section 103-d of the New York General Municipal Law requires a statement of non-collusion in bids and proposals to political subdivision of the state. Currently, the Fishers Island Ferry District does not have a policy to obtain, nor does it obtain, any statements of non-collusion in its bids and proposals.

**Fishers Island Ferry District
Schedule of Findings
For the Year Ended December 31, 2010**

NC-10-2 Payroll for Salaried Employees

Currently, salaried employees are paid their annual salary in 26 bi-weekly installments. Salaried employees get a full paycheck on payday if they are employed on payday. If they are not employed on payday they do not get a paycheck at all. The salaried paycheck is not associated with any pay period and not prorated for any pay period. At termination of employment, this could lead to confusion by the employee on if they were paid for the specific days worked or not.