

**Fishers Island Ferry District**

A Component Unit of  
the Town of Southold, New York

Financial Statements and  
Supplementary Information

Year Ended December 31, 2014

# Fishers Island Ferry District

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Year Ended December 31, 2014

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## **Independent Auditors' Report**

### **The Board of Commissioners Fishers Island Ferry District**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fishers Island Ferry District ("District"), a component unit of the Town of Southold, New York, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the 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 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.

### **Auditors' Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, budgetary comparison information and the Schedule of Funding Progress for Pensions and Other Post-Employment Benefits 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 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 sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 on our consideration of the District's internal control over financial reporting and 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 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* in considering the District's internal control over financial reporting and compliance.

*O'Connor Davies, LLP*

June 30, 2015

**Fishers Island Ferry District**

Management's Discussion and Analysis  
December 31, 2014

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2014**

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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, 2014. Please read it in conjunction with the Ferry District's financial statements, which begin with Exhibit 1.

**FINANCIAL HIGHLIGHTS**

- The Ferry District's combined net position decreased by \$193,548 in 2014. Unrestricted net position increased by \$97,866.
- Fund balance, a measure of the Ferry District's short term health, increased by \$131,918 in 2014.
- The Ferry District's 2014 budget planned to use no fund balance to balance the budget. The Ferry District ended the year by adding \$132,622 back to fund balance in the General Fund.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position 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 position* and changes in them. You can think of the Ferry District's net position—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 position 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 roads, to assess the *overall health* of the Ferry District.

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2014**

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

- Governmental activities—The Ferry District's basic services are reported here, including the education, public works, and general administration. Property taxes, state and federal grants and local revenues such as fees and licenses finance most of these activities.

**Reporting the Government's Most Significant Funds**

Our analysis of the Ferry District's major funds begins in the section titled "The Government'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 Position and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2014**

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**THE GOVERNMENT AS A WHOLE**

The Ferry District's *combined* net position decreased by \$193,548 from a year ago—*decreasing* from \$8,495,589 to \$8,302,041. Last year net position *increased* by \$8,061. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Ferry District.

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

	2014	Change During Year		2013
		Dollars	Percent	
Current and other assets	\$ 1,423,798	\$ 192,636	15.65%	\$ 1,231,162
Capital assets	10,156,835	(567,414)	-5.29%	10,724,249
Total assets	<u>11,580,633</u>	<u>(374,778)</u>	-3.13%	<u>11,955,411</u>
Long-term debt outstanding	2,771,811	(241,324)	-8.01%	3,013,135
Other liabilities	337,258	87,869	35.23%	249,389
Deferred inflows of resources	169,523	(27,775)	-14.08%	197,298
Total liabilities	<u>3,278,592</u>	<u>(181,230)</u>	-5.24%	<u>3,459,822</u>
Net position				
Net investment in capital assets	7,932,835	(291,414)	-3.54%	8,224,249
Unrestricted	369,206	97,866	36.07%	271,340
Total net position	<u>\$ 8,302,041</u>	<u>\$ (193,548)</u>	-2.28%	<u>\$ 8,495,589</u>

Capital assets decreased during the year by \$567,414. This was the result of \$604,832 depreciation expense and \$37,418 in additions during the year. The Ferry District paid a net amount of \$276,000 on debt used to finance capital assets. The result was that net investment in capital assets decreased by \$291,414 because the assets are depreciating faster than the debt is retiring.

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2014**

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

	2014	Change During Year		2013
		Dollars	Percent	
<b>Revenues</b>				
Program revenues:				
Charges for services	\$ 2,792,071	\$ (117,186)	-4.03%	\$ 2,909,257
Operating grants and contributions	18,716	(14,972)	-44.44%	33,688
Capital grants and contributions	398	(1,159)	-74.44%	1,557
General revenues:				
Property taxes	772,668	7,653	1.00%	765,015
Interest and investment earnings	900	336	59.57%	564
Other general revenues	-	(10,055)	-100.00%	10,055
Total revenues	<u>3,584,753</u>	<u>(135,383)</u>	<u>-3.64%</u>	<u>3,720,136</u>
<b>Program expenses</b>				
General government	132,299	(38,781)	-22.67%	171,080
Ferry operations	3,557,268	157,303	4.63%	3,399,965
Airport	13,317	(42,678)	-76.22%	55,995
Theater	2,541	(8,286)	-76.53%	10,827
Rental activities	10,082	3,973	65.04%	6,109
Interest on long-term debt	62,794	(5,305)	-7.79%	68,099
Total expenses	<u>3,778,301</u>	<u>66,226</u>	<u>1.78%</u>	<u>3,712,075</u>
Increase (decrease) in net position	<u>\$ (193,548)</u>	<u>\$ (201,609)</u>	<u>-2501.04%</u>	<u>\$ 8,061</u>

The significant changes between 2014 and 2013 were as follows:

- Charges for services decreased by \$117,186 due to a decrease in ferry traffic revenue of \$118,287. Ticket sales were down in 2014.
- Operating grants and contributions decreased by \$14,972. In 2013, a \$21,811 airport grant was received. \$11,877 was recorded as revenue from a FEMA grant in 2013. In 2014, \$17,735 was recorded as revenue from a FEMA grant.
- Other general revenues decreased to \$0 from \$10,055 in 2013. The Special Aid Fund project was closed in 2013 with \$10,760 in revenues.
- General government expenses decreased by \$38,781 from 2013 due to a \$19,145 decrease in legal fees and fines and a \$8,376 decrease in property taxes. The higher than usual legal fees in 2013 was due to a legal settlement in that year. Real estate property taxes due to New London decreased from 2013 due to a revaluation.
- Ferry operations expenses increased by \$157,303 mainly due to a \$183,171 increase in General Fund expenses. These increases included a \$61,176 increase in payroll expenses, a \$35,475 increase in computer operations, and a \$21,301 increase in NYS retirement benefits. The increase in computer operations was due to the new UPS tracking system. There has been an increase in the number of employees and raises have been given.
- Airport expenses are down by \$42,678 due to additional maintenance costs for Elizabeth Airport that were incurred in 2013 and not in 2014.
- Theater expenses decreased by \$8,286 from 2013 due to the Theater being closed for most of 2014.

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2014**

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**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.

**Table 3  
Governmental Type Activities**

	Total Cost of Services		Incr. Decr.	Net Cost of Services		Incr. Decr.
	2014	2013		2014	2013	
<b>Governmental Activities</b>						
General government	\$ 132,299	\$ 171,080	-22.67%	\$ 132,299	\$ 171,080	-22.67%
Ferry operations	3,557,268	3,399,965	4.63%	823,998	550,308	49.73%
Airport	13,317	55,995	-76.22%	12,919	55,023	-76.52%
Theater	2,541	10,827	-76.53%	2,541	(94)	-2803.19%
Rental activities	10,082	6,109	65.04%	(67,435)	(76,843)	-12.24%
Interest on long-term debt	62,794	68,099	-7.79%	62,794	68,099	-7.79%
<b>Totals</b>	<b>\$ 3,778,301</b>	<b>\$ 3,712,075</b>	<b>1.78%</b>	<b>\$ 967,116</b>	<b>\$ 767,573</b>	<b>26.00%</b>

The significant changes in the total cost of services were discussed above. The net cost of ferry operations increased by \$273,690 due to the increase in expenses and decrease in ferry traffic revenue discussed above.

**THE GOVERNMENT'S FUNDS**

While the year showed a \$193,548 decrease in net position in Exhibit 2, it showed a \$131,918 increase in fund balance 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 position 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 position on the government-wide statements, except that depreciation is deducted.

**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, 2014**

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**Table 4  
General Fund - Budget Summary**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>			
Ferry	\$ 2,673,480	\$ 2,714,554	\$ 41,074
Property Tax	772,650	772,668	18
Property Management	79,809	77,517	(2,292)
Grant Revenue	-	19,858	19,858
Other	1,000	485	(515)
<b>Total Revenues</b>	<b>3,526,939</b>	<b>3,585,082</b>	<b>58,143</b>
<b>Expenditures</b>			
General Government	222,668	212,479	10,189
Transportation	2,435,703	2,386,760	48,943
Theater	2,600	2,541	59
Employee Benefits	514,052	512,106	1,946
Debt Service	351,916	338,574	13,342
<b>Total Expenditures</b>	<b>3,526,939</b>	<b>3,452,460</b>	<b>74,479</b>
<b>Increase (Decrease) in Fund Balance</b>	<b>\$ -</b>	<b>\$ 132,622</b>	<b>\$ 132,622</b>

The original budget called for expenditures of \$3,526,939. During the year no additional appropriations were made. The budgeted revenues were \$3,526,939. If everything happened right on budget, the Ferry District would have used none of its accumulated Fund Balance to balance the budget.

Actual revenues were \$58,143 higher than anticipated and actual expenditures were \$74,479 lower than budgeted resulting in the Ferry District adding \$132,622 to its Fund Balance.

Significant variances are summarized as follows:

- Ferry operations and charter revenues were \$41,074 more than expected.
- Theater revenues were \$11,000 less than expected due to the theater not being open during the year.
- Federal capital grants were \$19,460 higher than expected.
- Dock repairs came in \$22,597 under budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of this year, the Ferry District had \$10,156,835 invested in governmental activity capital assets. This amount represents a net decrease (including additions and deductions) of \$567,414 from last year. This is due to depreciation expense of \$604,832 and only \$37,418 of new assets capitalized during the year. More detailed information about the Ferry District's capital assets is presented in Note 3D to the financial statements.

### **Debt**

At year end, the Ferry District had \$2,224,000 in bonds and notes outstanding. This is a decrease of \$276,000 from last year. The Ferry District'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 3E 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 2015 budget and rates including trying to anticipate an accurate level of ridership, budgeting for continued improvements to the systems while keeping expenditures in line, and planning for future capital needs.

## **CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and 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 the Board of Commissioners at Fishers Island Ferry District, P.O. Box 607, Fishers Island, NY 06390.

**Fishers Island Ferry District**

Basic Financial Statements  
December 31, 2014

**Fishers Island Ferry District**

Statement of Net Position  
December 31, 2014

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,111,694
Receivables	49,033
Due from primary government	169,524
Prepaid expenses	93,547
Capital assets	
Nondepreciable	41,717
Depreciable, net of accumulated depreciation	<u>10,115,118</u>
Total assets	<u>\$ 11,580,633</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 246,160
Accrued payroll	60,124
Security deposit	9,102
Accrued interest payable	21,872
Noncurrent liabilities	
Due within one year	1,127,535
Due in more than one year	<u>1,644,276</u>
Total liabilities	<u>3,109,069</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Taxes paid in advance	<u>169,523</u>
<b>NET POSITION</b>	
Net investment in capital assets	7,932,835
Unrestricted	<u>369,206</u>
Total net position	<u>\$ 8,302,041</u>

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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total
Governmental activities					
General government	\$ 132,299	\$ -	\$ -	\$ -	\$ (132,299)
Ferry operations	3,557,268	2,714,554	18,716	-	(823,998)
Airport	13,317	-	-	398	(12,919)
Theater	2,541	-	-	-	(2,541)
Rental activities	10,082	77,517	-	-	67,435
Interest on long-term debt	62,794	-	-	-	(62,794)
Total government	<u>\$ 3,778,301</u>	<u>\$ 2,792,071</u>	<u>\$ 18,716</u>	<u>\$ 398</u>	<u>(967,116)</u>
General revenues:					
Property taxes, payments in lieu of taxes, interest and liens					772,668
Interest and investment earnings					900
Total general revenues					<u>773,568</u>
Change in net position					(193,548)
Net position - beginning of the year					<u>8,495,589</u>
Net position - end of the year					<u>\$ 8,302,041</u>

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

**Fishers Island Ferry District**

Balance Sheet  
 Governmental Funds  
 December 31, 2014

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	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,111,694
Receivables	49,033
Due from primary government	169,524
Prepaid expenditures	<u>61,132</u>
Total assets	<u><u>\$ 1,391,383</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	
Liabilities	
Accounts payable	\$ 246,160
Accrued payroll	60,124
Deferred revenue	11,133
Security deposit	<u>9,102</u>
Total liabilities	<u>326,519</u>
Deferred inflows of resources	
Taxes paid in advance	<u>169,523</u>
Fund balances	
Nonspendable	61,132
Assigned	436,870
Unassigned	<u>397,339</u>
Total fund balances	<u>895,341</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 1,391,383</u></u>

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

**Fishers Island Ferry District**
 Reconciliation of Governmental Funds Balance Sheet  
 to the Government Wide Statement of Net Position - Governmental Activities  
 December 31, 2014
 

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Fund Balances - Total Governmental Funds (Exhibit 3)	\$ 895,341
Less long-term liabilities not due and payable in current period	
Bonds, notes, capital leases payable and unamortized premiums	(2,224,000)
Compensated absences and special termination benefits	(213,432)
Other post-employment benefits	(334,379)
Accrued interest payable	(21,872)
Plus	
Difference in treatment of prepaid insurance	32,415
Deferred revenue not available to pay for current period expenditures	11,133
Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	<u>10,156,835</u>
Net position of Governmental Activities (Exhibit 1)	<u>\$ 8,302,041</u>

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, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES</b>			
Ferry revenues	\$ 2,714,554	\$ -	\$ 2,714,554
Property taxes	772,668	-	772,668
Property management	77,517	-	77,517
Grants	19,858	-	19,858
Other	485	415	900
Total revenues	<u>3,585,082</u>	<u>415</u>	<u>3,585,497</u>
<b>EXPENDITURES</b>			
Current			
General government	132,299	-	132,299
Ferry operations	2,547,349	-	2,547,349
Airport	13,317	-	13,317
Theater	2,541	-	2,541
Rental activities	10,082	-	10,082
Debt service	688,574	500,119	1,188,693
Capital outlay	408,298	-	408,298
Total expenditures	<u>3,802,460</u>	<u>500,119</u>	<u>4,302,579</u>
Deficiency of revenues over expenditures	(217,378)	(499,704)	(717,082)
<b>OTHER FINANCING SOURCES</b>			
Proceeds from long-term debt	<u>350,000</u>	<u>499,000</u>	<u>849,000</u>
Net Change in Fund Balances	132,622	(704)	131,918
Fund balances - beginning of the year	<u>762,719</u>	<u>704</u>	<u>763,423</u>
Fund balances - end of the year	<u>\$ 895,341</u>	<u>\$ -</u>	<u>\$ 895,341</u>

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

**Fishers Island Ferry District**

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in the Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2014

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Amounts Reported for Governmental Activities in the Statement of Activities are Different Because

Net Change in Fund Balances - Total Governmental Funds (Exhibit 4)	\$ 131,918
Transactions involving the treatment of capital outlays	
Plus capital outlays treated as expenditures on Exhibit 4, but capitalized on Exhibit 1	37,418
Less depreciation/amortization expense in Exhibit 2, but not in Exhibit 4	(604,832)
Transactions involving the treatment of long-term debt	
Less long-term debt issued or incurred	
Issuance of general obligation bonds	(849,000)
Plus principal repayments	
Bonds and bond anticipation notes	1,125,000
Changes in other items not requiring the use of current financial resources	
Compensated absences benefits	(31,376)
Accrued interest	899
Other post-employment benefits	(3,300)
Difference in the treatment of insurance expense	469
Revenue in the Statement of Activities (Exhibit 2) that was deferred in this statement	
Federal grants	<u>(744)</u>
Change in Net Position of Governmental Activities (Exhibit 2)	<u>\$ (193,548)</u>

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

## **Fishers Island Ferry District**

Notes to Financial Statements  
December 31, 2014

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### **1. Summary of Significant Accounting Policies**

The Fishers Island Ferry District (The 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 District 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 District’s income and expenses are handled separately from the town’s general fund, the Southold Town Supervisor is the fiscal officer of the District and along with the Town Board, reviews, approves and executes all of the District’s financial obligations, including payroll.

The 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 accounting policies conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the District’s more significant accounting policies:

#### **A. Financial Reporting Entity**

The financial reporting entity consists of: a) the primary government; b) organizations for which the primary government is financially accountable and c) 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 as set forth by GASB.

In evaluating how to define the financial reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in this reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability. The criterion 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 Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the primary government as a whole. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used. 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 Financial Statements (Continued)  
December 31, 2014

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### 1. Summary of Significant Accounting Policies (Continued)

The Statement of Net Position presents the financial position of the District at the end of its fiscal year. The Statement of Activities demonstrates the degree to which 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 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 or services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and (3) interest earned on grants that is required to be used to support a particular program. Taxes and other items not identified as program revenues are reported as general revenues.

### C. Fund Financial Statements

The accounts of the District is organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The District maintains the minimum number of funds consistent with legal and managerial requirements. The focus of governmental fund financial statements is on major funds as that term is defined in professional pronouncements. Each major fund is to be presented in a separate column, with non-major funds, if any, aggregated and presented in a single column. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the pages following, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District's resources are reflected in the fund financial statements in broad fund categories, in accordance with generally accepted accounting principles as follows:

#### Fund Categories

- a. Governmental Funds - Governmental funds are those through which most general government functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the District's major governmental funds:

General Fund – The General Fund constitutes the primary operating fund of the District and is used to account for and report all financial resources not accounted for and reported in another fund.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 1. Summary of Significant Accounting Policies (Continued)

Capital Project Fund – The Capital Project Fund is used to account for large, one time projects financed by the District. Currently, transactions for improvements to the ramps are recorded in this fund.

#### D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

Property taxes and certain other revenues are considered to be available if collected within sixty days of the fiscal year end. Property taxes associated with the current fiscal period, as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures, when applicable, related to early retirement incentives, compensated absences, capital leases, post-closure landfill costs, pollution remediation obligations, other post employment benefit obligations, certain pension obligations and certain claims payable are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 1. Summary of Significant Accounting Policies (Continued)

#### E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balances

##### Deposits, Investments and Risk Disclosure

**Cash and Equivalents** - 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, if any, are generally reported at fair value.

**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 Federal Deposit Insurance Corporation "FDIC" insured commercial banks or trust companies located within the State. The Fishers Island Ferry District is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, repurchase agreements and obligations of New York State or its political subdivisions.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at a minimum of 100% of all deposits not covered by Federal deposit insurance. The Ferry District has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Such obligations include, among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions. The Ferry District's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2014 because of these custodial agreements

**Interest Rate Risk** - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The 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.

**Custodial Credit Risk** – Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal custodial credit risk policy.

**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 District does not have a formal credit risk policy.

**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 District does not have a formal credit risk policy.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 1. Summary of Significant Accounting Policies (Continued)

**Taxes Receivable** - Property taxes are assessed on property values as of July 1<sup>st</sup>. The tax levy is divided into two billings; the following December 1<sup>st</sup> and May 31<sup>st</sup>. This is used to finance the calendar year. The billings are considered due on those dates; however, the actual due date for each respective billing is January 10<sup>th</sup> and May 31<sup>st</sup>. After this, the bill becomes delinquent and the applicable property is subject to lien, penalties and interest.

The Town of Southold, New York is responsible for the billing and collection of the taxes through May, at which time collection responsibility is transferred to the County. At May 31<sup>st</sup>, the county pays any unpaid taxes to the Town 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 and are reported on the balance sheet as such.

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

**Other Receivables** - Other receivables include amounts due from other governments and individuals for services provided by the District. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.

**Prepaid Expenses/Expenditures** - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method in both the government-wide and fund financial statements. Reported amounts are equally offset by nonspendable fund balance, in the fund financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

**Due From/To Other Funds** - During the course of its operations, the District has numerous transactions between funds to finance operations, provide services and construct assets. To the extent that certain transactions between funds had not been paid or received as of December 31, 2014, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the 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 Financial Statements (Continued)  
December 31, 2014

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### 1. Summary of Significant Accounting Policies (Continued)

Intangible assets lack physical substance, is nonfinancial in nature and its useful life extends beyond a single reporting period. These are reported at historical cost if identifiable. Intangible assets with no legal, contractual, regulatory, technological or other factors limiting their useful life are considered to have an indefinite useful life and are not amortized.

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, is not depreciated. Construction in progress has not been placed in service and, therefore, is not depreciated. Property, plant, and equipment of the District is depreciated or amortized using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	<u>Capitalization Threshold</u>
Land	N/A	\$ 5,000
Construction in progress	N/A	\$ 5,000
Buildings and systems	20 to 40	\$ 5,000
Machinery and equipment	5 to 40	\$ 5,000
Infrastructure	20	\$ 5,000
Intangible assets	Varies	\$ 5,000

**Unearned Revenues** – Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In the government-wide financial statements, unearned revenues consist of revenue received in advance and/or amounts from grants received before the eligibility requirements have been met.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Also, deferred revenues in the fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Such amounts in the fund financial statements have been deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

**Long-Term Liabilities** - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 1. Summary of Significant Accounting Policies (Continued)

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, and debt payments, are reported as debt service expenditures.

**Compensated Absences** - District employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement.

**Net Position** - Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes net investment in capital assets, and restricted, if any. The balance is classified as unrestricted.

**Fund Balance** - Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard, the fund balance classifications are as follows:

- Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund).
- Restricted fund balance is to be reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification will be used to report funds that are restricted for debt service obligations and for other items contained in the General Municipal Law of the State of New York.
- Committed fund balance will be reported for amounts that can only be used for specific purposes pursuant to formal action of the District's highest level of decision making authority. The Town Supervisor is the highest level of decision making authority. These funds may only be used for the purpose specified unless the entity removes or changes the purpose by taking the same action that was used to establish the commitment. This classification includes certain designations established and approved by the entity's governing boards.

## **Fishers Island Ferry District**

Notes to Financial Statements (Continued)  
December 31, 2014

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### **1. Summary of Significant Accounting Policies (Continued)**

- Assigned fund balance, in the General Fund, represents amounts constrained either by the Town Supervisor or a person with delegated authority from the governing board to assign amounts for a specific intended purpose including balancing the subsequent year's budget or for encumbrances. Unlike commitments, assignments generally only exist temporarily, in that additional action does not normally have to be taken for the removal of an assignment. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance amounts.
- Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the District's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, the District considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

#### **F. Use of Estimates**

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

#### **G. Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is June 30, 2015.

### **2. Stewardship, Compliance and Accountability**

#### **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) except 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**

Notes to Financial Statements (Continued)  
December 31, 2014

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### **2. Stewardship, Compliance and Accountability (Continued)**

#### **B. Budget Calendar**

The Board of Commissioners prepares detailed estimates of the revenues and expenditures for the next calendar year. These estimates are reviewed at a public hearing held on or about August 20<sup>th</sup> 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 20<sup>th</sup>. 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 30<sup>th</sup>. The Town Clerk presents the Tentative Budget to the Town of Southold, New York's Town Board on or before October 5<sup>th</sup>. 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 20<sup>th</sup>.

#### **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 no additional appropriations were made.

#### **D. Property Tax Limitation**

The District is not limited as to the maximum amount of real property taxes which may be raised. However, on June 24, 2011, the Governor signed Chapter 97 of the Laws of 2011 ("Tax Levy Limitation Law"). This applies to all local governments.

The Tax Levy Limitation Law restricts the amount of real property taxes that may be levied by a government in a particular year, beginning with the 2012 year. It expires on June 16, 2016.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 2. Stewardship, Compliance and Accountability (Continued)

The following is a brief summary of certain relevant provisions of the Tax Levy Limitation Law. The summary is not complete and the full text of the Tax Levy Limitation Law should be read in order to understand the details and implementations thereof.

The Tax Levy Limitation Law imposes a limitation on increases in the real property tax levy, subject to certain exceptions. The Tax Levy Limitation Law permits the government to increase its overall real property tax levy over the tax levy of the prior year by no more than the "Allowable Levy Growth Factor," which is the lesser of one and two-one hundredths or the sum of one plus the Inflation Factor; provided, however that in no case shall the levy growth factor be less than one. The "Inflation Factor" is the quotient of: (i) the average of the 20 National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the coming fiscal year minus the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the prior fiscal year, divided by (ii) the average of the National Consumer Price Indexes determined by the United States with the result expressed as a decimal to four places. The government is required to calculate its tax levy limit for the upcoming year in accordance with the provision above and provide all relevant information to the New York State Comptroller prior to adopting its budget. The Tax Levy Limitation Law sets forth certain exclusions to the real property tax levy limitation of the government, including exclusions for certain portions of the expenditures for retirement system contributions and tort judgments payable by the government. The government may adopt a budget that exceeds the tax levy limit for the coming fiscal year, only if the government first enacts, by a vote of at least sixty percent of the total voting power of the government, a local law to override such limit for such coming fiscal year.

#### E. Application of Accounting Standards

For the year ended December 31, 2014, the Town implemented:

- GASB Statement 67 – *Financial Reporting for Pension Plans* – This statement amends GASB Statement 25.
- GASB Statement 69 – *Government Combinations and Disposals of Government Operations* - This statement establishes accounting and financial reporting standards related to a variety of transactions such as mergers, acquisitions, and transfers of operations.

### 3. Detailed Notes on All Funds

#### A. Cash, Cash Equivalents and Investments

Cash and investments of the District consist of the following at December 31, 2014:

Statement of Net Position	
Cash and equivalents	<u>\$ 1,111,694</u>

**Fishers Island Ferry District**

Notes to Financial Statements (Continued)  
December 31, 2014

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**3. Detailed Notes on All Funds (Continued)**

**Cash and Cash Equivalents** - As of December 31, 2014 the carrying amount of the District's deposits with financial institutions was:

Cash and Cash Equivalents	
Deposits with financial institutions	<u>\$ 1,111,694</u>

The bank balance of the deposits was \$1,105,676 and was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 315,174
Collateralized by securities held in trust	
In the Town's name	<u>790,502</u>
	<u>\$ 1,105,676</u>

**B. Receivables, Deferred Revenue and Unearned Revenue**

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. Taxes collected in advance in the amount of \$169,523 are recorded as the deferred inflows of resources *unearned revenue* at December 31, 2014.

**C. Interfund Transactions**

The outstanding balances between funds result mainly from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made. At December 31, 2014 there were no interfund balances.

Fund transfers are generally used to fund special projects with general fund revenues. There were no transfers during the year ended December 31, 2014.

**D. Capital Assets**

Changes in the District's capital assets used in the governmental activities are as follows

	Beginning Balance	Increases	Ending Balance
Capital assets not being depreciated			
Land	\$ 41,717	\$ -	\$ 41,717
Capital assets being depreciated			
Buildings and systems	12,583,229	-	12,583,229
Machinery and equipment	2,914,192	27,868	2,942,060
Infrastructure	3,108,854	9,550	3,118,404
	<u>18,606,275</u>	<u>37,418</u>	<u>18,643,693</u>
Less accumulated depreciation	<u>(7,923,743)</u>	<u>(604,832)</u>	<u>(8,528,575)</u>
	<u>\$ 10,724,249</u>	<u>\$ (567,414)</u>	<u>\$ 10,156,835</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Ferry operations	<u>\$ 604,832</u>
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**Fishers Island Ferry District**

Notes to Financial Statements (Continued)  
December 31, 2014

**3. Detailed Notes on All Funds (Continued)**

**E. Long-Term Liabilities**

The following table summarizes changes in the District's long-term indebtedness for the year ending December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 2,500,000	\$ 849,000	\$ (1,125,000)	\$ 2,224,000	\$ 1,024,000
Compensated absences	182,056	31,376	-	213,432	103,535
OPEB obligations	331,079	31,317	(28,017)	334,379	-
	<u>\$ 3,013,135</u>	<u>\$ 911,693</u>	<u>\$ (1,153,017)</u>	<u>\$ 2,771,811</u>	<u>\$ 1,127,535</u>

Each governmental funds liability is liquidated by the respective fund, primarily the General Fund. Interest on these obligations is expensed to the respective fund, primarily the General Fund.

**General Obligation Bonds**

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations of the District and pledge the full faith and credit of the District. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds outstanding as of December 31, 2014 consisted of the following:

Purpose	Year of Issue	Original Amount	Final Maturity	Interest Rates	Amount Outstanding
New London Ferry Terminal/Wharf	2005	\$ 3,000,000	2021	3.75%	\$ 1,375,000
New London Ferry Terminal/Wharf	2014	\$ 350,000	2015	0.74%	350,000
North Ramp	2014	\$ 499,000	2015	0.74%	499,000
					<u>\$ 2,224,000</u>

Payments to maturity on the general obligation bonds are as follows

Year End	Governmental Activities General Obligation Bonds		Year End	Governmental Activities General Obligation Bonds	
	Principal	Interest		Principal	Interest
2015	\$ 1,024,000	\$ 58,545	2019	200,000	23,200
2016	200,000	45,700	2020	200,000	15,600
2017	200,000	38,200	2021	200,000	8,000
2018	200,000	30,700		<u>\$ 2,224,000</u>	<u>\$ 219,945</u>

Interest cost incurred and expensed on general obligation bonds for the year ended December 31, 2014 totaled \$62,794.

The Bonds due in 2014 were refinanced with \$849,000 of new financing with an interest rate of .74% per year. This is due in April 2015.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 3. Detailed Notes on All Funds (Continued)

#### Compensated Absences

Compensated absences include 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 include 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. The value of all compensated absences has been reflected in the government-wide financial statements.

#### Legal Debt Limit

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 Southold's Town Board must also authorize debt issued on behalf of the District though 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.

#### F. Net Position

The components of net position are detailed below:

*Net Investment in Capital Assets* - the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

*Unrestricted* - all other amounts that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 3. Detailed Notes on All Funds (Continued)

#### G. Fund Balances

As discussed in Note 1, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. These are summarized below:

	General Fund
Nonspendable	
Not in spendable form	
Prepaid expenditures	<u>\$ 61,132</u>
Assigned	
To balance next year's budget	<u>\$ 436,870</u>

#### H. Pension Plan

**Plan Description** - The District participates in the New York State and Local Employees' Retirement System ("ERS"). This is a cost-sharing multiple-employer defined benefit retirement plan. The ERS provides retirement, death and disability benefits to plan members.

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 System. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions 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 the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, 110 State Street, Albany, NY 12224.

**Funding Policy** – The ERS is non-contributory except for employees in tiers 3 and 4 that have less than 10 years of service, who contribute 3% of their salary and employees in tier 5 who also contribute 3% of their salaries for the employee retirement system (the "ERS") without regard to their years of service and employees in tier 6 who contribute between 3% and 6% depending on salary levels and also without regard to years of service. Contributions to ERS are certified by the State Comptroller and expressed as a percentage of members' salary. Contribution rates are actuarially determined and based upon membership tier and plan. Contributions to ERS consist of a life insurance portion and regular pension contributions.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 3. Detailed Notes on All Funds (Continued)

The Fishers Island Ferry District is not a separate employer under this plan. The District is included in the plan as a part of the Town of Southold. There are no separate financial statistics available for the District. The District contributes at an actuarially determined rate. The District's contributions made to the System were equal to 100% of the contributions required for each year. Contribution rates for the year ended March 31, 2013 are as follows:

	<u>Tier/Plan/Option</u>	<u>Rate</u>
ERS	1 75i 41J	27.7 %
	3 A14 41J	20.3
	4 A15 41J	20.3
	5 A15 41J	16.6
	6 A15 41J1	10.9
	6 A15 41J2	11.0

Contributions were equal to 100% of the actuarially required contribution for each year. Contributions made to the ERS for the current and two preceding years were charged to the General Fund as follows:

<u>Year</u>	<u>Contribution</u>
2014	\$204,971
2013	\$183,670
2012	\$158,354

#### I. Defined Contribution Plan

The District has a defined contribution plan for all eligible employees under Internal Revenue Code ("IRS") 401(a). This is administered by Nationwide Retirement Solutions, Inc. Provisions are made and amended as necessary by the District. Employees may contribute up to the IRS limits through an IRS section 457 plan. The District does not match an eligible employee's contribution.

#### J. Other Post-Employment Benefits (OPEB)

From an accrual accounting perspective, the cost of post-employment health care benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. The District recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. The liability accumulated from the years prior to adopting this accounting procedure will be phased in over 30 years.

**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 and can be amended by the Board. The plan does not issue a separate financial statement and is unfunded.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 3. Detailed Notes on All Funds (Continued)

**Eligibility** The district provides medical, prescription drug and behavioral health to retirees and their covered dependents. The District pays up to \$3,000 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 pay the balance of the premium over \$3,000 per year.

#### Annual OPEB Cost (“AOC”) and Net OPEB Obligation (“NOO”)

Amortization Component:

Actuarial Accrued Liability as of January 1, 2014	\$ 440,133
Assets at Market Value	-
Unfunded Actuarial Accrued Liability (“UAAL”)	<u>\$ 440,133</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll (Active plan members)	<u>\$ 1,016,360</u>
UAAL as a Percentage of Covered Payroll	<u>43.30%</u>
Annual Required Contribution	\$ 37,471
Interest on Net OPEB Obligation	12,415
Adjustment to Annual Required Contribution	<u>(18,569)</u>
Annual OPEB Cost	<u>31,317</u>
Contributions made	<u>(28,017)</u>
Increase in net OPEB Obligation	<u>3,300</u>
Net OPEB Obligation - Beginning of the year	<u>331,079</u>
Net OPEB Obligation - End of the year	<u>\$ 334,379</u>

**Actuarial Methods and Significant Assumptions** - The District’s annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB. GASB 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 is using a per capita claims cost will be determined, which will be used to determine a “normal cost”, an “actuarial accrued liability”, and ultimately the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the assumptions and projections utilized do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 3. Detailed Notes on All Funds (Continued)

The District is required to accrue on the government-wide financial statements the amounts necessary to finance the plan as actuarially determined, which is equal to the balance not paid by plan members.

Other actuarial methods and significant assumptions are summarized as follows:

Latest Actuarial Date	January 1, 2014
Actuarial Cost Method	Projected Unit Credit
Discount Rate	3.75%
Medical Inflation	Initial rate of 9% grading down to an ultimate inflation rate of 4.75% after 2020.
Amortization Method	Level dollar of payroll
Remaining amortization	30 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	Based on male and female rates for age and years of service provided.

Three year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC)	Actual Contributions Made	Percentage Contributed	Net OPEB Obligation (NOO)
12/31/2014	\$ 31,317	\$ 28,017	89.5%	\$ 334,379
12/31/2013	23,480	21,686	92.4%	331,079
12/31/2012	22,792	21,918	96.2%	329,285

### Funding Progress

As of the last valuation date, January 1, 2014, the actuarial valuation of the plan assets was \$0. The actuarial accrued liability was \$440,133. The schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. There is no requirement for funding and the plan has not been funded.

### 4. Other Information

#### A. Litigation

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the District.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2014

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### 4. Other Information (*continued*)

#### B. Contingencies

**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.

#### C. Risk Management

The 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 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.

#### D. 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 68 - *Accounting and Financial Reporting for Pensions* – This statement, and GASB Statement 67 applicable to pension plans, improves information provided by state and local government employers for better decision making, accountability, interperiod equity, and creating additional transparency. This statement is effective for fiscal years beginning after June 15, 2014.
- GASB Statement 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* – This statement is an amendment of GASB Statement 68 and should be applied simultaneously with the provisions of Statement 68.
- GASB Statement 72 – *Fair Value Measurement and Application* – This statement, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement is effective for fiscal years beginning after June 15, 2015.

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**Fishers Island Ferry District**

Required Supplementary Information  
December 31, 2014

## Fishers Island Ferry District

Required Supplementary Information  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual (Budgetary Basis) - General Fund  
 For the Year Ended December 31, 2014

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Appropriations and Transfers	Final		
<b>REVENUES</b>					
<b>Ferry Revenues</b>					
Ferry operations	\$ 2,635,480	\$ -	\$ 2,635,480	\$ 2,650,489	\$ 15,009
Charters	10,000	-	10,000	36,065	26,065
U.S. mail	28,000	-	28,000	28,000	-
<b>Total Ferry Revenues</b>	<u>2,673,480</u>	<u>-</u>	<u>2,673,480</u>	<u>2,714,554</u>	<u>41,074</u>
<b>Property Tax Revenues</b>					
Property taxes	772,650	-	772,650	772,650	-
Interest and penalties - real estate taxes	-	-	-	18	18
<b>Total Property Tax Revenues</b>	<u>772,650</u>	<u>-</u>	<u>772,650</u>	<u>772,668</u>	<u>18</u>
<b>Property Management Revenue</b>					
Service to other governments	68,809	-	68,809	77,517	8,708
Theater	11,000	-	11,000	-	(11,000)
<b>Total Property Management Revenue</b>	<u>79,809</u>	<u>-</u>	<u>79,809</u>	<u>77,517</u>	<u>(2,292)</u>
<b>Grant Revenues</b>					
NYS capital grant	-	-	-	398	398
Federal capital grant	-	-	-	19,460	19,460
<b>Total Grant Revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,858</u>	<u>19,858</u>
<b>Other Revenues</b>					
Interest earnings	1,000	-	1,000	485	(515)
<b>Total Revenues</b>	<u>3,526,939</u>	<u>-</u>	<u>3,526,939</u>	<u>3,585,082</u>	<u>58,143</u>
<b>EXPENDITURES</b>					
<b>General Government</b>					
Accounting and finance	30,000	(4,000)	26,000	22,902	3,098
Legal fees	50,000	15,000	65,000	64,503	497
Insurance	77,968	1,400	79,368	79,128	240
Insurance claims	4,000	-	4,000	3,456	544
Property taxes	50,000	(6,000)	44,000	41,438	2,562
MTA payroll tax	4,300	-	4,300	1,052	3,248
<b>Total General Government</b>	<u>216,268</u>	<u>6,400</u>	<u>222,668</u>	<u>212,479</u>	<u>10,189</u>
<b>Transportation</b>					
Elizabeth airport	30,000	(19,000)	11,000	10,064	936
Dock repairs, capital	98,000	500	98,500	75,903	22,597
Ferry operations, personal services	1,262,119	41,000	1,303,119	1,302,576	543
Ferry operations, equipment	325,000	26,000	351,000	342,477	8,523
Ferry operations, contractual expense	697,000	(55,916)	641,084	635,117	5,967
Office expense, contractual expense	14,000	-	14,000	8,223	5,777
Commissioner fees	7,500	-	7,500	3,100	4,400
U.S. mail, contractual expense	9,000	500	9,500	9,300	200
<b>Total Transportation</b>	<u>2,442,619</u>	<u>(6,916)</u>	<u>2,435,703</u>	<u>2,386,760</u>	<u>48,943</u>
<b>Theater, contractual expense</b>	<u>9,000</u>	<u>(6,400)</u>	<u>2,600</u>	<u>2,541</u>	<u>59</u>

(Continued)

## Fishers Island Ferry District

Required Supplementary Information  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual (Budgetary Basis) - General Fund  
 For the Year Ended December 31, 2014

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Appropriations and Transfers	Final		
<b>Employee Benefits</b>					
NYS retirement	\$ 206,000	\$ 200	\$ 206,200	\$ 204,971	\$ 1,229
Social security	96,552	-	96,552	95,860	692
Unemployment insurance	5,000	3,500	8,500	8,484	16
Medical insurance	200,000	2,800	202,800	202,791	9
<b>Total Employee Benefits</b>	<u>507,552</u>	<u>6,500</u>	<u>514,052</u>	<u>512,106</u>	<u>1,946</u>
<b>Total general government expenditures</b>	<u>3,175,439</u>	<u>(416)</u>	<u>3,175,023</u>	<u>3,113,886</u>	<u>61,137</u>
<b>Debt Service</b>					
Principal:					
Serial bond	175,000	-	175,000	175,000	-
Bond anticipation note	100,000	416	100,416	100,415	1
Interest:					
Serial bond	71,000	-	71,000	58,825	12,175
Bond anticipation note	5,500	-	5,500	4,334	1,166
<b>Total Debt Service</b>	<u>351,500</u>	<u>416</u>	<u>351,916</u>	<u>338,574</u>	<u>13,342</u>
Total Expenditures	<u>3,526,939</u>	<u>-</u>	<u>3,526,939</u>	<u>3,452,460</u>	<u>74,479</u>
<b>Excess (deficiency) of revenues over expenditures- Budgetary Basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 132,622	<u>\$ 132,622</u>
<b>Adjustments to Generally Accepted Accounting Principles (GAAP)</b>					
Bond Anticipation Note proceeds netted with retirement of Bond Anticipation Note				350,000	
Retirement of Bond Anticipation Note netted with Bond Anticipation Note proceeds				(350,000)	
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses) - GAAP basis</b>				<u>\$ 132,622</u>	

**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**

Required Supplementary Information - Schedule of Funding Progress  
 Other Post Employment Benefits  
 Last Three Valuations

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
1/1/2014	\$ -	\$ 440,133	\$ 440,133	0.00%	\$ 1,016,360	43.30%
1/1/2013	\$ -	\$ 426,393	\$ 426,393	0.00%	\$ 1,017,116	41.92%
1/1/2012	\$ -	\$ 431,452	\$ 431,452	0.00%	\$ 968,682	44.54%

See Accountants' Report

**Fishers Island Ferry District**

Required Supplementary Information - Schedule of Employer Contributions  
 Other Post Employment Benefits  
 Last Six Fiscal Years

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Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
12/31/2014	\$ 37,471	\$ 28,017	74.77%
12/31/2013	\$ 29,601	\$ 21,686	73.26%
12/31/2012	\$ 29,154	\$ 21,918	75.18%
12/31/2011	\$ 28,373	\$ 10,639	37.50%
12/31/2010	\$ 126,611	\$ 17,011	13.44%
12/31/2009	\$ 115,897	\$ 17,235	14.87%

**Fishers Island Ferry District**

Internal Control and Compliance Reports  
December 31, 2014

**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***

**The Board of Commissioners  
Fishers Island Ferry District**

We have audited, 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, the financial statements of the governmental activities and each major fund of the Fishers Island Ferry District ("District") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 30, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that that we consider to be material weaknesses.

*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 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 and Questioned Costs as items (identified as 10-1, 10-3, and 10-7) to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 and Questioned Costs as items NC-10-1.

## **District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

*O'Connor Davies, LLP*

June 30, 2015

**Fishers Island Ferry District  
Schedule of Findings  
For the Year Ended December 31, 2014**

**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.

**Management’s Response:** We have been working to develop a coordinated set of policies and procedures. We have been working in the most critical areas first. Ultimately, these will all be addressed.

**Fishers Island Ferry District  
Schedule of Findings  
For the Year Ended December 31, 2014**

**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.

**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.

**Management’s Response:** We have been working to develop a coordinated set of policies and procedures. We have been working in the most critical areas first. Ultimately, these will all be addressed. During the year ended December 31, 2014, the reconciliation function was segregated from the custody function.

**Fishers Island Ferry District  
Schedule of Findings  
For the Year Ended December 31, 2014**

**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.

**Management's Response:** We have been working to develop a coordinated set of policies and procedures. We have been working in the most critical areas first. As we move through this process, we will document our policies and procedures.

**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.

**Management's Response:** In 2014, the Board of Commissioners approved that the procurement policy be amended to include the required statement of non-collusion. Management is working on amending the document and implementing it.