

**Fishers Island Ferry District**

A Component Unit of  
the Town of Southold, New York

Financial Statements and  
Supplementary Information

Year Ended December 31, 2015

# Fishers Island Ferry District

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Year Ended December 31, 2015

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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 (the "District"), a component unit of the Town of Southold, New York, as of and for the year ended December 31, 2015, 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, 2015, 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 and the schedules included under Required Supplementary Information in the accompanying table of contents 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 24, 2016 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.

*PKF O'Connor Davies, LLP*

June 24, 2016

**Fishers Island Ferry District**

Management's Discussion and Analysis  
December 31, 2015

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2015**

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Our discussion and analysis of Fishers Island Ferry District's (the Government) financial performance provides an overview of the Government's financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the Government's financial statements, which begin with Exhibit 1.

**FINANCIAL HIGHLIGHTS**

- The Government's total net position decreased by \$420,092 in 2015. The Government's unrestricted net position decreased by \$335,164.
- Fund balance, a measure of the Government's short term health, decreased by \$441,759.
- The Government's 2015 budget planned to use \$436,870 of its fund balance to balance the budget. The Government actually used \$441,759 of its fund balance during 2015.
- The decreases in net position and fund balance were mainly caused by the net pay down on debt of \$387,000 which is discussed further in this analysis.

**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 Government as a whole and present a longer-term view of the Government'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 Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds.

**Reporting the Government as a Whole**

Our analysis of the Government as a whole begins with Exhibit 1. One of the most important questions asked about the Government's finances is, "Is the Government 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 Government 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 Government's *net position* and changes in them. You can think of the Government's net position—the difference between assets and liabilities—as one way to measure the Government's financial health, or *financial position*. Over time, *increases or decreases* in the Government'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 Government's property tax base and the condition of the Government's roads, to assess the *overall health* of the Government.

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

- Governmental activities—The Government's basic services are reported here, including the ferry operations and general administration. Property taxes, state and federal grants and property management revenues finance most of these activities.

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

Our analysis of the Government'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 Government as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Commissioners may establish many 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 Government'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 Government'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 Government'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, 2015**

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**THE GOVERNMENT AS A WHOLE**

The Government's *combined* net position decreased by \$420,092 from a year ago — *decreasing* from \$8,283,556 to \$7,863,464. Last year net position *decreased* by \$193,548. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Government.

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

	2015	Change During Year		2014
		Dollars	Percent	
Current and other assets	\$ 1,075,772	\$ (348,026)	-24.44%	\$ 1,423,798
Capital assets	9,684,907	(471,928)	-4.65%	10,156,835
Total assets	10,760,679	(819,954)	-7.08%	11,580,633
Deferred outflows of resources	148,221	(12,775)	-7.93%	160,996
Long-term debt outstanding	2,454,317	(496,975)	-16.84%	2,951,292
Other liabilities	411,590	74,332	22.04%	337,258
Total liabilities	2,865,907	(422,643)	-12.85%	3,288,550
Deferred inflows of resources	179,529	10,006	5.90%	169,523
Net position				
Net investment in capital assets	7,847,907	(84,928)	-1.07%	7,932,835
Unrestricted	15,557	(335,164)	-95.56%	350,721
Total net position	\$ 7,863,464	\$ (420,092)	-5.07%	\$ 8,283,556

Capital assets decreased during the year by \$471,928. This was the result of \$602,305 depreciation expense and \$130,377 in additions during the year. These changes are discussed further in Capital Asset and Debt Administration. Debt was reduced by a net amount of \$387,000 due to 2014's \$849,000 BAN being rolled into a \$699,000 BAN and the payoff of \$1,200,000 in debt with a refunding bond of \$1,138,000 in addition to the normal principal payment of \$175,000. These changes caused the \$84,928 decrease in net investment in capital assets. The decrease in debt also caused the majority of the decrease in current and other assets and unrestricted net position.

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2015**

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

	2015	Change During Year		2014
		Dollars	Percent	
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 2,833,044	\$ 40,973	1.47%	\$ 2,792,071
Operating grants and contributions	1,532	(17,184)	-91.81%	18,716
Capital grants and contributions	-	(398)	-100.00%	398
General revenues				
Property taxes	788,116	15,448	2.00%	772,668
Interest and investment earnings	476	(424)	-47.11%	900
Other general revenues	79,685	79,685	100.00%	-
Total revenues	<u>3,702,853</u>	<u>118,100</u>	<u>3.29%</u>	<u>3,584,753</u>
<b>Program expenses</b>				
General government	363,446	231,147	174.72%	132,299
Ferry operations	3,646,065	88,797	2.50%	3,557,268
Airport	35,041	21,724	163.13%	13,317
Theater	12,877	10,336	406.77%	2,541
Rental activities	9,049	(1,033)	-10.25%	10,082
Interest on long-term debt	56,467	(6,327)	-10.08%	62,794
Total expenses	<u>4,122,945</u>	<u>344,644</u>	<u>9.12%</u>	<u>3,778,301</u>
Increase (decrease) in net position	<u>\$ (420,092)</u>	<u>\$ (226,544)</u>	<u>117.05%</u>	<u>\$ (193,548)</u>

The significant changes between 2015 and 2014 were as follows:

- Charges for services relating to property management revenues increased \$33,000 from the prior year. This was due to:
  - The theatre was not open during much of 2014 due to repair issues with the building. The theatre was opened back up in 2015.
  - Rental properties had a 5% increase in rent.
  - The Government entered into an agreement during the year with the airport manager to receive a percentage of the revenues.
- Operating grants and contributions decreased by \$17,184 due to a FEMA grant. \$17,735 was received in 2014 and only \$963 was received in 2015.
- Other general revenues increased mainly due to \$77,270 in premiums received on the refunding bond in 2015.
- General government expenditures increased due to a number of factors including:
  - Accounting and finance expenditures increase \$38,000 due to the hiring of a new accountant and related training.
  - Legal fees and fines increased \$142,000 due to ongoing litigation, union contract negotiations and a legal settlement
  - Property tax expenditures increased \$24,000 due to a \$500,000 increased in assessment.
- Ferry operations expenditures increased due to a number of factors including:
  - \$82,000 in vacation and sick time payouts, mainly to an employee who retired during the year.
  - Repairs on the Munnatawket decreased \$67,689 from the prior year as the engine was replaced in 2014. 2014 was the Munnatawket's year for dry dock.
  - Repairs on the Race Point increased \$255,689 from the prior year. 2015 was the Race Point's year for dry dock. The two ferries alternate years for dry dock repairs.
  - Fuel oil for the vessels decreased \$136,203 from the prior year due to significantly lower fuel prices in 2015. Fuel dropped from approximately \$3 per gallon to \$2 per gallon.

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2015**

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- Airport expenditures increased mainly due to \$35,000 spent on engineering work for repairs. The Government is in the process of getting a FEMA grant to cover the remaining expenditures for this project.

**Governmental Activities**

Table 3 presents the cost of each of the Government'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 Government's taxpayers by each of these functions.

**Table 3  
Governmental Type Activities**

	Total Cost of Services		Incr. Decr.	Net Cost of Services		Incr. Decr.
	2015	2014		2015	2014	
<b>Governmental Activities</b>						
General government	\$ 363,446	\$ 132,299	174.72%	\$ 363,446	\$ 132,299	174.72%
Ferry operations	3,646,065	3,557,268	2.50%	921,805	823,998	11.87%
Airport	35,041	13,317	163.13%	21,468	12,919	66.17%
Theater	12,877	2,541	406.77%	4,539	2,541	78.63%
Rental activities	9,049	10,082	-10.25%	(79,356)	(67,435)	17.68%
Interest on long-term debt	56,467	62,794	-10.08%	56,467	62,794	-10.08%
<b>Totals</b>	<b>\$ 4,122,945</b>	<b>\$ 3,778,301</b>	<b>9.12%</b>	<b>\$ 1,288,369</b>	<b>\$ 967,116</b>	<b>33.22%</b>

The significant changes in the total cost of services were discussed above. The net cost of ferry operations increased by \$97,807 due to the increase in expenditures and \$17,184 decrease in operating grants discussed above.

**THE GOVERNMENT'S FUNDS**

While the year showed a \$420,092 decrease in net position in Exhibit 2, it showed a \$441,759 decrease 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.

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2015**

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In addition, these other changes in fund balances should be noted:

- In the General Fund, the majority of the change in fund balance was related to the issuance and payment of debt. During 2015, the Government issued \$1,837,000 in new debt and paid off \$2,224,000 of old debt. The Government also received \$77,270 in premiums and paid \$15,270 in costs related to the refunding.

**General Fund Budgetary Highlights**

Over the course of the year, the Board of Commissioners can revise the Government budget with additional appropriations and budget transfers. These are subject to the approval of the Town Board. Additional appropriations increase the total budget. Transfers do not increase the total budget, but instead pull appropriations to 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:

**Table 4  
General Fund - Budget Summary**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>			
Ferry	\$ 2,841,840	\$ 2,722,728	\$ (119,112)
Property tax	788,103	788,116	13
Property management	81,000	110,316	29,316
Grant revenue	337,148	1,532	(335,616)
Other	500	2,891	2,391
<b>Total Revenues</b>	<b>4,048,591</b>	<b>3,625,583</b>	<b>(423,008)</b>
<b>Expenditures</b>			
General government	460,584	451,371	9,213
Transportation	3,092,001	2,686,905	405,096
Theater	13,000	12,877	123
Employee benefits	536,113	532,644	3,469
Debt service	383,763	383,545	218
<b>Total Expenditures</b>	<b>4,485,461</b>	<b>4,067,342</b>	<b>418,119</b>
<b>Increase (Decrease) in Fund Balance</b>	<b>\$ (436,870)</b>	<b>\$ (441,759)</b>	<b>\$ (4,889)</b>

The original budget called for expenditures of \$4,485,461. During the year no additional appropriations were made. The budgeted revenues were \$4,048,591. If everything happened right on budget, the Government would have used \$436,870 of its accumulated Fund Balance to balance the budget.

Actual revenues were \$423,008 less than anticipated and actual expenditures were \$418,118 less than budget resulting in the Ferry District subtracting \$441,759 from its Fund Balance.

**Fishers Island Ferry District  
Management's Discussion and Analysis  
December 31, 2015**

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Significant variances are summarized as follows:

- Ferry revenues were \$119,112 under budget. This was mainly due to:
  - Ferry operation revenues were \$96,620 less than expected although they were comparable with prior years.
  - Charter revenues were \$22,776 less than expected. These tend to fluctuate from year to year and were in line with the average of the last four years.
- Property management revenues were \$29,316 above budget. This was mainly due to:
  - Services to other governments (rental revenues) which were \$18,405 over budget, mainly due to 5% rent increases and the rental of a house for the second half of the year that had been empty in 2014.
  - Elizabeth Airport revenue was \$13,573 over budget. During the year, the Government signed an agreement with the airport manager to receive a portion of the revenue generated by the airport.
- Grant revenue was \$335,616 under budget mainly due to a \$337,148 FEMA grant that was budgeted for but was not approved by FEMA during the year.
- Transportation expenditures were \$405,096 under budget mainly due to the budgeting of \$358,287 in repairs to the airport. These were anticipated to be paid by the FEMA grant that was not approved. As such, only \$35,000 in engineering costs for the project were spent during the year.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of this year, the Government had \$9,684,907 invested government activity capital assets. This amount represents a net decrease (including additions and deductions) of \$471,928 from last year. This is due to depreciation expense of \$602,305 and \$130,377 of new assets capitalized during the year. The asset additions were repairs to the South ramp performed 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 Government had \$1,837,000 in bonds and notes outstanding. This is a decrease of \$387,000 from last year. The Government's general obligation bonds carry an Aa1 rating. More detailed information about the Government'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 2016 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, 2015

Statement of Net Position  
December 31, 2015

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 752,573
Receivables	53,972
Due from primary government	177,219
Prepaid expenses	92,008
Capital assets	
Nondepreciable	41,717
Depreciable, net of accumulated depreciation	<u>9,643,190</u>
Total Assets	<u>10,760,679</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Difference between expected and actual experience	4,295
Net difference between projected and actual earnings	23,305
Contributions after the measurement date	<u>120,621</u>
Total Deferred Outflows of Resources	<u>148,221</u>
<b>LIABILITIES</b>	
Accounts payable	299,746
Accrued payroll	78,818
Security deposit	13,232
Accrued interest payable	19,794
Noncurrent liabilities	
Due within one year	932,835
Due in more than one year	<u>1,521,482</u>
Total Liabilities	<u>2,865,907</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Changes in proportion	2,310
Taxes paid in advance	<u>177,219</u>
Total deferred inflows of resources	<u>179,529</u>
<b>NET POSITION</b>	
Net investment in capital assets	7,847,907
Unrestricted	<u>15,557</u>
Total Net Position	<u>\$ 7,863,464</u>

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



Balance Sheet  
 Governmental Funds  
 December 31, 2015

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**ASSETS**

Cash and cash equivalents	\$ 752,573
Receivables	53,972
Due from primary government	177,219
Prepaid expenditures	<u>49,964</u>
Total Assets	<u>\$ 1,033,728</u>

**LIABILITIES, DEFERRED INFLOWS  
OF RESOURCES, AND FUND BALANCE**

## Liabilities

Accounts payable	\$ 299,746
Accrued payroll	78,818
Security deposit	<u>13,232</u>
Total Liabilities	<u>391,796</u>

## Deferred inflows of resources

Deferred revenue	11,133
Taxes paid in advance	<u>177,219</u>
Total Deferred Inflows of Resources	<u>188,352</u>

## Fund balance

Nonspendable	49,964
Unassigned	<u>403,616</u>
Total Fund Balance	<u>453,580</u>

Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 1,033,728</u>
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Reconciliation of Governmental Funds Balance Sheet  
to the Government-Wide Statement of Net Position - Governmental Activities  
December 31, 2015

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Fund Balances - Total Governmental Funds	<u>\$ 453,580</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because	
Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	<u>9,684,907</u>
Difference in treatment of prepaid insurance	<u>42,044</u>
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	<u>11,133</u>
Deferred outflows - difference between expected and actual experience	4,295
Deferred outflows - net difference between projected and actual earnings	23,305
Deferred outflows - contributions after the measurement date	120,621
Deferred inflows - changes in proportion	<u>(2,310)</u>
	<u>145,911</u>
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds, notes, capital leases payable and unamortized premiums	(1,837,000)
Compensated absences and special termination benefits	(159,340)
Pension liability	(134,178)
Other post-employment benefits	(323,799)
Accrued interest payable	<u>(19,794)</u>
	<u>(2,474,111)</u>
Net Position of Governmental Activities	<u>\$ 7,863,464</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balance  
 Governmental Funds  
 For the Year Ended December 31, 2015

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**REVENUES**

Ferry revenues	\$ 2,722,728
Property taxes	788,116
Property management	110,316
Grants	1,532
Other	2,891
Total Revenues	<u>3,625,583</u>

**EXPENDITURES**

Current	
General government	348,176
Ferry operations	3,145,025
Airport	38,294
Theater	12,877
Rental activities	9,048
Debt service	
Principal	1,024,000
Interest	58,545
Payment to refunded bond escrow agent - refunding bond issuance costs	15,270
Capital outlay	<u>130,377</u>
Total Expenditures	<u>4,781,612</u>
Deficiency of Revenues over Expenditures	<u>(1,156,029)</u>

**OTHER FINANCING SOURCES**

Issuance of long-term debt	699,000
Refunding bonds issued	1,138,000
Payment to refunded bond escrow agent	(1,200,000)
Premium on financing	77,270
Total Other Financing Sources	<u>714,270</u>
Net Change in Fund Balance	(441,759)
Fund Balance - Beginning of Year	<u>895,339</u>
Fund Balance - End of Year	<u>\$ 453,580</u>

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

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, 2015

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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 \$ (441,759)

Governmental funds report capital outlays as expenditures. However, in the  
Statement of Activities, the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense

Capital outlay expense	130,377
Depreciation expense	<u>(602,305)</u>
	<u>(471,928)</u>

Debt proceeds provide current financial resources to governmental funds, but  
issuing debt increases long-term liabilities in the Statement of Net Position.  
Repayment of debt principal is an expenditure in the governmental funds, but  
the repayment reduces long-term liabilities in the Statement of Net Position.

Issuance of long-term debt - bond anticipation note	(699,000)
Issuance of long-term debt - refunding bonds	(1,138,000)
Principal payments on long-term debt - bond anticipation note	849,000
Principal payments on long-term debt - bonds	175,000
Payment to refunded bond escrow agent	<u>1,200,000</u>
	<u>387,000</u>

Some expenses reported in the Statement of Activities do not require the  
use of current financial resources and, therefore, are not reported as  
expenditures in governmental funds, including the change in

Compensated absences	54,091
Accrued interest	2,078
Pension liability	30,217
Other post-employment benefits liability	10,580
Difference in the treatment of insurance expense	<u>9,629</u>
	<u>106,595</u>

Change in Net Position of Governmental Activities \$ (420,092)

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

## **Fishers Island Ferry District**

Notes to Financial Statements  
December 31, 2015

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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, 2015

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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 one 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 is the District's major governmental fund:

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, 2015

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

#### 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, 2015

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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, 2015 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, 2015

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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.

**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, 2015

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

Intangible assets lack physical substance, are nonfinancial in nature and their useful lives extend 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

**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, 2015

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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, 2015

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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 funds except the General Fund includes all remaining amounts, except for negative balances, that are not classified as nonspendable and are neither restricted nor committed.
- 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 24, 2016.

### **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, 2015

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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, 2020.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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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, 2015, the District implemented:

- 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.
- 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.
- 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.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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

#### F. Cumulative Effect of Change in Accounting Principle

For the year ended June 30, 2015, the Town implemented GASB Statement Nos. 68 *Accounting and Financial Reporting for Pensions* and 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements seek to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expenses/expenditures. These statements also require the identification of the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value and attribute that present value to periods of employee service. As a result of adopting these standards, the government-wide financial statements reflect a cumulative effect for the change in accounting principle of \$18,484.

### 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, 2015:

Statement of Net Position	
Cash and equivalents	<u>\$ 752,573</u>

**Cash and Cash Equivalents** - As of December 31, 2015 the carrying amount of the District's deposits with financial institutions was:

Cash and Cash Equivalents	
Deposits with financial institutions	<u>\$ 752,573</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 \$177,219 are recorded as deferred inflows of resources at December 31, 2015.

#### 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, 2015 there were no interfund balances.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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

Fund transfers are generally used to fund special projects with general fund revenues. There were no transfers during the year ended December 31, 2015.

#### 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	2,942,060		2,942,060
Infrastructure	3,118,404	130,377	3,248,781
	<u>18,643,693</u>	<u>130,377</u>	<u>18,774,070</u>
Less accumulated depreciation	<u>(8,528,575)</u>	<u>(602,305)</u>	<u>(9,130,880)</u>
	<u>\$ 10,156,835</u>	<u>\$ (471,928)</u>	<u>\$ 9,684,907</u>

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

Ferry operations	<u>\$ 602,305</u>
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#### E. Long-Term Liabilities

The following table summarizes changes in the District's long-term indebtedness for the year ending December 31, 2015:

Type and Note	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-Term Portion
Bonds (3E1)	\$ 1,375,000	\$ 1,138,000	\$ 1,375,000	\$ 1,138,000	\$ 194,000	\$ 944,000
BANS (3E2)	849,000	699,000	849,000	699,000	699,000	-
Comp abs (3E3)	213,432	-	54,092	159,340	39,835	119,505
Pension (4A)	179,481		45,303	134,178	-	134,178
OPEB (4C)	334,379	37,430	48,010	323,799	-	323,799
	<u>\$ 2,951,292</u>	<u>\$ 1,874,430</u>	<u>\$ 2,371,405</u>	<u>\$ 2,454,317</u>	<u>\$ 932,835</u>	<u>\$ 1,521,482</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.

#### 1) 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.

**Fishers Island Ferry District**

Notes to Financial Statements (Continued)  
 December 31, 2015

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

General obligation bonds and bond anticipation notes outstanding as of December 31, 2015 consisted of the following:

Purpose	Year of Issue	Original Amount	Final Maturity	Interest Rates	Amount Outstanding
New London Ferry Terminal/Wharf	2015	\$ 250,000	2016	1.27%	\$ 250,000
North Ramp	2015	449,000	2016	1.27%	449,000
Refunding Bonds	2015	1,138,000	2021	2.00 - 4.76%	1,138,000
					<u>\$ 1,837,000</u>

**Advance Refunding** - During the 2015 fiscal year, the District issued \$1,138,000 in serial bonds with interest rates ranging from 2.00% to 4.76%, depending on maturity. The proceeds were used to advance refund \$1,200,000 of outstanding 2005 public improvement serial bonds bearing interest at 3.75%. The net proceeds of \$1,215,270 (including \$77,270 of issuance premium and after \$15,270 in underwriting fees and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2005 serial bonds are considered defeased and the liability for those serial bonds has been removed from the Statement of Net Position. The District advance refunded the 2005 serial bonds to reduce its total debt service payments over 6 years by \$101,236 and to obtain a net present value economic gain of \$81,308. As of December 31, 2015, \$1,200,000 of the bonds are considered defeased.

Payments to maturity on the general obligation bonds and bond anticipation notes are as follows:

Year End	Principal	Interest	Year End	Principal	Interest
2016	\$ 893,000	\$ 89,070	2019	\$ 190,000	\$ 42,249
2017	194,000	65,839	2020	185,000	28,099
2018	190,000	54,499	2021	185,000	12,399
				<u>\$ 1,837,000</u>	<u>\$ 292,155</u>

Interest cost incurred and expensed on general obligation bonds and bond anticipation notes for the year ended December 31, 2015 totaled \$56,467.

**2) Bond Anticipation Notes**

The two bond anticipation notes due in 2016 were refinanced with \$699,000 of new financing at an interest rate of 1.27% per year. These are due in April 2017.

**3) 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.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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

#### 4) 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 through a resolution of the Town Board, which is subject to permissive referendum at the District level. Furthermore, a local government must comply with certain regulations and statutory provisions for the private or public sale of its debt. Other provisions set limits on the use of bond proceeds, refunding protocols, and the maximum number of years that certain projects, goods or services can be debt-financed based upon probable useful life.

#### 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".

#### 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>\$ 49,964</u>

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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### 4. Pension Plan and Other Post Retirement Plans

#### A. New York State and Local Retirement System

The District participates in the New York State and Local Employees' Retirement System ("System"). This is a cost-sharing multiple-employer defined benefit retirement plan. The System provides retirement, death and disability benefits to plan members. The net position of the System is held in the New York State Common Retirement Fund, which was established to hold all net assets and record changes in plan net position. The Comptroller of the State of New York serves as sole trustee and administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan, which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12224.

The System is non-contributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010, who generally contribute between 3% and 6% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

The 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. The employer contribution rates for the plan's year ending in 2015 are as follows:

	<u>Tier/Plan/Option</u>	<u>Rate</u>
Employee Retirement System	1 75i 41J	25.2 %
	3 A14 41J	18.8
	4 A15 41J	18.8
	5 A15 41J	15.5
	6 A15 41J1	10.5
	6 A15 41J2	10.6

**Fishers Island Ferry District**

Notes to Financial Statements (Continued)  
 December 31, 2015

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**4. Pension and Other Post Retirement Plans (Continued)**

At December 31, 2015, the District reported a liability of \$134,178 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of March 31, 2015, and the total pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a computation of the actuarially determined indexed present value of future compensation by employer relative to the total of all participating members. At December 31, 2015, the District's proportion was 0.004%. For this first year of implementation, the System reported no change in the allocation percentage measured as of March 31, 2014.

For the year ended December 31, 2015, the District recognized pension expense in the government-wide financial statements of \$30,217. Pension expenditures of \$176,063 were recorded in the fund financial statements and were charged to the General Fund.

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,295	\$ -
Net difference between projected and actual earnings on pension plan investments	23,305	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	2,310
District contributions subsequent to the measurement date	120,621	-
	<u>\$ 148,221</u>	<u>\$ 2,310</u>

The \$120,621 reported as deferred outflows of resources resulting from the District's accrued contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ended March 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended March 31,	
2016	\$ 6,323
2017	6,323
2018	6,323
2019	6,321
	<u>\$ 25,290</u>

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

### 4. Pension and Other Post Retirement Plans (Continued)

The total pension liability for the March 31, 2015 measurement date was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liabilities to March 31, 2015. The total pension liabilities for the March 31, 2014 measurement date were determined by using an actuarial valuation as of April 1, 2014. Significant assumptions used in the April 1, 2014 valuation were as follows:

<b>Actuarial cost method</b>	Entry Age Normal
<b>Inflation</b>	2.7%
<b>Salary scale</b>	4.9%
<b>Investment rate of return</b>	7.5% compounded annually, net of investment expenses, including inflation
<b>Cost of living adjustment</b>	1.4% annually

Annuitant mortality rates are based on the April 1, 2005 – March 31, 2010 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice ("ASOP") No. 27 *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed inflation investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 and 2014 are summarized below.

Asset Type	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	38%	7.30%
International Equity	13%	8.55%
Private Equity	10%	11.00%
Real Estate	8%	8.25%
Absolute Return Strategies	3%	6.75%
Opportunistic Portfolio	3%	8.60%
Real Assets	3%	8.65%
Bonds and Mortgages	18%	4.00%
Cash	2%	2.25%
Inflation Indexed Bonds	2%	4.00%
	100%	

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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### 4. Pension and Other Post Retirement Plans (Continued)

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability (asset)	<u>\$ 894,352</u>	<u>\$ 134,178</u>	<u>\$ (507,598)</u>

The components of the net pension liability as of the March 31, 2015 measurement date were as follows:

Total pension liability	\$164,591,504,000
Fiduciary net position	<u>161,213,259,000</u>
Net pension liability	<u>\$ 3,378,245,000</u>
Fiduciary net position as a percentage of total pension liability	<u>97.9%</u>

Employer contributions to the System are paid annually and cover the period through the end of the System's fiscal year, which is March 31<sup>st</sup>. Retirement contributions as of December 31, 2015 represent the employer contribution for the period of April 1, 2015 through December 31, 2015 based on prior year wages multiplied by the employer's contribution rate, by tier. Retirement contributions for the nine months ended December 31, 2015 were \$120,621.

### B. 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.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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### 4. Pension Plan and Other Post Retirement Plans (Continued)

#### C. 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.

**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, 2015	\$ 496,030
Assets at Market Value	-
Unfunded Actuarial Accrued Liability ("UAAL")	<u>\$ 496,030</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll (Active plan members)	<u>\$ 1,067,178</u>
UAAL as a Percentage of Covered Payroll	<u>46.48%</u>
Annual Required Contribution	\$ 41,018
Interest on Net OPEB Obligation	12,640
Adjustment to Annual Required Contribution	<u>(18,905)</u>
Annual OPEB Cost	34,753
Adjustment to Net OPEB Obligation	2,677
Contributions made	<u>(48,010)</u>
Increase in net OPEB Obligation	<u>(10,580)</u>
Net OPEB Obligation - Beginning of the year	<u>334,379</u>
Net OPEB Obligation - End of the year	<u>\$ 323,799</u>

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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### 4. Pension Plan and Other Post Retirement Plans (Continued)

**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.

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, 2015
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.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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### 4. Pension Plan and Other Post Retirement Plans (Continued)

Three year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC)	Actual Contributions Made	Percentage Contributed	Net OPEB Obligation (NOO)
12/31/2015	\$ 34,753	\$ 48,010	138.1%	\$ 323,799
12/31/2014	31,317	28,017	89.5%	334,379
12/31/2013	23,480	21,686	92.4%	331,079

### Funding Progress

As of the last valuation date, January 1, 2015, the actuarial valuation of the plan assets was \$0. The actuarial accrued liability was \$496,030. 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.

### 5. 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.

#### 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:

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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### 5. Other Information (Continued)

- 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.
- GASB Statement 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68* – This Statement establishes requirements for defined benefit and contribution pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. This is effective for fiscal years beginning after June 15, 2016.
- GASB Statement 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pensions* – This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with Other Post-Employment Benefits (OPEB), as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This is effective for fiscal years beginning after June 15, 2016.
- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other than Pensions* – This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) and applies to all governments whose employees are provided with OPEB. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017.
- GASB Statement 76 – *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments* – This statement identifies the current hierarchy of GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.
- GASB Statement 77 – *Tax Abatement Disclosures* – This Statement requires governments to disclose information about their tax abatements and agreements and is effective for periods beginning after December 15, 2015.
- GASB Statement 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* – This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided through certain cost-sharing multiple-employer defined benefit plan and is effective for periods beginning after December 15, 2015.
- GASB Statement 79 – *Certain External Investment Pools and Pool Participants* – This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost and is effective for periods beginning after December 15, 2015.

## Fishers Island Ferry District

Notes to Financial Statements (Continued)  
December 31, 2015

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### 5. Other Information (Continued)

- GASB Statement 80 – *Blending Requirements for Certain Component Units* – This Statement amends the blending requirements of Statement 14 to require the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member and is effective for periods beginning after June 15, 2016.
- GASB Statement 81 – *Irrevocable Split-Interest Agreements* – This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement and is effective for periods beginning after December 15, 2016.

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**Fishers Island Ferry District**

Required Supplementary Information  
December 31, 2015

Required Supplementary Information  
 Schedule of Revenues, Expenditures and Changes in Budgetary Fund Balance  
 Budget and Actual (Budgetary Basis) - General Fund  
 For the Year Ended December 31, 2015

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Appropriations and Transfers	Final		
<b>REVENUES</b>					
<b>Ferry Revenues</b>					
Ferry operations	\$ 2,773,840	\$ -	\$ 2,773,840	\$ 2,677,220	\$ (96,620)
Charters	40,000	-	40,000	17,224	(22,776)
U.S. mail	28,000	-	28,000	28,284	284
Total Ferry Revenues	<u>2,841,840</u>	<u>-</u>	<u>2,841,840</u>	<u>2,722,728</u>	<u>(119,112)</u>
<b>Property Tax Revenues</b>					
Property taxes	788,103	-	788,103	788,103	-
Interest and penalties - real estate taxes	-	-	-	13	13
Total Property Tax Revenues	<u>788,103</u>	<u>-</u>	<u>788,103</u>	<u>788,116</u>	<u>13</u>
<b>Property Management Revenue</b>					
Service to other governments	70,000	-	70,000	88,405	18,405
Elizabeth Airport	-	-	-	13,573	13,573
Theater	11,000	-	11,000	8,338	(2,662)
Total Property Management Revenue	<u>81,000</u>	<u>-</u>	<u>81,000</u>	<u>110,316</u>	<u>29,316</u>
<b>Grant Revenues</b>					
Federal capital grant	-	-	-	570	570
FEMA aid - transportation	337,148	-	337,148	962	(336,186)
Total Grant Revenues	<u>337,148</u>	<u>-</u>	<u>337,148</u>	<u>1,532</u>	<u>(335,616)</u>
<b>Other Revenues</b>					
Interest earnings	500	-	500	476	(24)
Other	-	-	-	2,415	2,415
Total Other Revenues	<u>500</u>	<u>-</u>	<u>500</u>	<u>2,891</u>	<u>2,391</u>
<b>Total Revenues</b>	<u>4,048,591</u>	<u>-</u>	<u>4,048,591</u>	<u>3,625,583</u>	<u>(423,008)</u>
<b>EXPENDITURES</b>					
<b>General Government</b>					
Accounting and finance	20,000	42,000	62,000	61,786	214
Legal fees	100,000	107,200	207,200	206,887	313
Insurance	83,300	23,632	106,932	101,884	5,048
Insurance claims	4,000	13,000	17,000	14,052	2,948
Property taxes	52,000	13,452	65,452	65,451	1
MTA payroll tax	4,000	(2,000)	2,000	1,311	689
Total General Government	<u>263,300</u>	<u>197,284</u>	<u>460,584</u>	<u>451,371</u>	<u>9,213</u>
<b>Transportation</b>					
Elizabeth airport	433,287	(75,000)	358,287	35,041	323,246
Dock repairs, capital	181,200	39,000	220,200	201,480	18,720
Ferry operations, personal services	1,292,498	77,400	1,369,898	1,366,332	3,566
Ferry operations, equipment	574,600	(34,500)	540,100	518,924	21,176
Ferry operations, contractual expense	779,000	(199,484)	579,516	541,844	37,672
Office expense, contractual expense	13,000	(2,300)	10,700	9,984	716
Commissioner fees	7,500	(3,800)	3,700	3,700	-
U.S. mail, contractual expense	9,600	-	9,600	9,600	-
Total Transportation	<u>3,290,685</u>	<u>(198,684)</u>	<u>3,092,001</u>	<u>2,686,905</u>	<u>405,096</u>

(Continued)

Required Supplementary Information  
 Schedule of Revenues, Expenditures and Changes in Budgetary Fund Balance  
 Budget and Actual (Budgetary Basis) - General Fund  
 For the Year Ended December 31, 2015

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Appropriations and Transfers	Final		
<b>Theater, contractual expense</b>	\$ 9,000	\$ 4,000	\$ 13,000	\$ 12,877	\$ 123
<b>Employee Benefits</b>					
NYS retirement	217,000	(40,000)	177,000	176,063	937
Social security	93,713	8,000	101,713	101,412	301
Unemployment insurance	3,000	2,500	5,500	4,571	929
Medical insurance	225,000	26,900	251,900	250,598	1,302
Total Employee Benefits	538,713	(2,600)	536,113	532,644	3,469
<b>Total General Government Expenditures</b>	4,101,698	-	4,101,698	3,683,797	417,901
<b>Debt Service</b>					
Principal					
Serial bond	175,000	-	175,000	175,000	-
Bond anticipation note	150,000	-	150,000	150,000	-
Interest					
Serial bond	52,263	-	52,263	52,263	-
Bond anticipation note	6,500	-	6,500	6,282	218
Total Debt Service	383,763	-	383,763	383,545	218
<b>Total Expenditures</b>	4,485,461	-	4,485,461	4,067,342	418,119
<b>Excess (deficiency) of revenues over expenditures- Budgetary Basis</b>	\$ (436,870)	\$ -	\$ (436,870)	\$ (441,759)	\$ (4,889)
<b>Adjustments to Generally Accepted Accounting Principles (GAAP)</b>					
Bond fees				(15,270)	
Repayments to escrow agent				(1,200,000)	
Premium and accrued interest				77,270	
Current refunding bond proceeds				1,138,000	
Bond Anticipation Note proceeds netted with retirement of Bond Anticipation Note				699,000	
Retirement of Bond Anticipation Note netted with Bond Anticipation Note proceeds				(699,000)	
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses) - GAAP basis</b>				\$ (441,759)	

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.

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

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Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
1/1/2015	\$ -	\$ 496,030	\$ 496,030	0.00%	\$ 1,067,178	46.48%
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%

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
12/31/2015	\$ 41,018	\$ 48,010	117.05%
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%

Required Supplementary Information  
 New York State and Local Retirement System  
 December 31, 2015

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**Schedule of Changes in Net Pension Liability and Related Ratios  
 Last 10 Fiscal Years or Since Inception of GASB 68**

	<u>2015</u>
District's percentage of collective net pension liability	<u>0.00397181%</u>
District's portion net pension liability	<u>\$ 134,178</u>
District's covered payroll	<u>\$ 1,036,238</u>
District's portion net pension liability as a % of covered payroll	<u>12.95%</u>
Plan Fiduciary net position as a % of total pension liability	<u>97.90%</u>

The amounts presented for each fiscal year were determined as of the System's measurement date.

**Schedule of Employer Contributions  
 Since Inception of GASB 68**

District's statutorily required contribution	\$ 190,486
District's contributions in relation to the statutorily required contribution	<u>\$ 190,486</u>
District's contribution deficiency (excess)	<u>\$ -</u>
District's covered employee payroll	<u>\$ 1,085,875</u>
District's contributions as a percentage of covered employee payroll	<u>17.54%</u>

The amounts presented for each fiscal year were determined as of the fiscal year end.

**Notes to Schedule**

Changes in benefit term	None
Changes in assumptions	None
Actuarial cost method	Aggregate cost method
Amortization method	Percentage of projected pay
Remaining amortization period	Remaining worker lifetimes of the valuation cohort
Asset valuation method	5 year smoothed market
Investment rate of return	7.5% net of investment expense, including inflation

**Fishers Island Ferry District**

Internal Control and Compliance Reports  
December 31, 2015

**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***

**Independent Auditors' Report**

**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 of the Fishers Island Ferry District ("District") as of and for the year ended December 31, 2015, 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 24, 2016.

**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, 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 as items (identified as MW 10-1, 10-3, 10-7, 15-1 and 15-2) 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 as items NC 10-1, 15-1 and 15-2.

### **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.

*PKF O'Connor Davies, LLP*

June 24, 2016

**Fishers Island Ferry District  
Schedule of Findings  
For the Year Ended December 31, 2015**

**Findings on Internal Controls**

Each finding is numbered using the sequence XX-####-aaa where XX indicates whether it is a Material Weakness (MW) in internal control, Significant Deficiency (SD) in internal controls, or Noncompliance (NC) with rules and regulations. The #### indicates the year that the finding was first reported. Finally, each finding in a year has a number assigned to it in case there are more than one. The aaa, refers to the number of the finding in that year.

**MW-2010-001 – 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. In July of 2016 the Board of Commissioners adopted policies on payroll and paid time off accruals; and cash management. The accounting manual is in process and will be reviewed by the Finance Committee as work progresses. The manual will reinforce District policy on risk assessment, communication, control activities, and monitoring of these matters. The Board of Commissioners will enact corresponding policies; and will approve the accounting manual when it is complete.

**Fishers Island Ferry District  
Schedule of Findings  
For the Year Ended December 31, 2015**

**MW-2010-003 – 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. During the year ended December 31, 2015, the reconciliation function was segregated from the custody and recording function. There is one staff person responsible for accounts payable processing, one for payroll processing, and one for receivables recording and invoicing. Multiple staff receive cash and create deposits; deposits are verified by the staff member responsible for receivables.

We are eliminating the ticket books. All unsold ticket books will be shredded. Tickets from previously sold ticket books will be accepted for passage.

In June 2016, we began working with a consulting CPA to update our policies and procedures, including segregation of duties. Currently, the same individual may collect cash receipts and record those payments. To segregate the collection function from the recording function, we plan to install, in 2016, a cash register that will create numbered receipts.

A methodology for verifying that all freight received in New London is delivered on Fishers Island is in process.

In conjunction with producing policies and procedures, we will create a process for management approval of no-charge items, changes, deletions and transaction write-offs.

**Fishers Island Ferry District  
Schedule of Findings  
For the Year Ended December 31, 2015**

**MW-2010-007 – 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 will document our policies and procedures and communicate them to staff. We are working with a consulting CPA, the Finance Committee, the Board of Commissioners and the District's general counsel to update our policies and procedures and ensure that we have instituted adequate controls.

**MW-2015-001 – Internal Controls over Payroll**

**Condition:** The Fishers Island Ferry District lacks controls over payroll. Time slips are required to be signed by the employee but that is not always done. Time slips are not approved by the employees' supervisor. The clerk's review of the time slips is not documented. The lack of controls creates a situation in which it cannot be confirmed whether an employee actually worked or that overtime worked was approved.

**Recommendation:** We recommend that the Fishers Island Ferry District tighten their controls over payroll including requiring an employee signature and a supervisor signature. The clerk's review of the time cards should also be documented.

**Management's Response:** In 2015 the Marine Operations Supervisor and the Maintenance Mechanic established that the baseline paid time off (PTO) balances at the 2013 year end (as manually recorded in a Red Book) were accurate. The balances were brought forward into 2014. PTO used was accurately and completely accounted for by using original documentation (leave requests) and the requirements of the Employee Handbook and the Collective Bargaining Agreement for Unused time carry-forward or loss. These balances were brought forward into 2015, and the same process was followed to establish carry-forwards, vacation hours eligible to be paid out in December 2015, and time lost. These balances were brought forward into 2016.

In July of 2015, the Accounting Supervisor (Secretary) assumed the duties of calculating bi-weekly payroll and retroactive payments and of reporting hours to the Town of Southold payroll department for issuance of checks and related (withholding, medical premium share, garnishments, etc.), payroll calculations and reporting.

The Accounting Supervisor emphasizes to employees the necessity for signing time sheets and requires Managers to approve, on the timesheets, the hours of all employees. The Accounting Supervisor works closely with the Marine Operations Supervisor to ensure that reported hours are correct, complete, and comply with the assigned schedule for those employees scheduled by the Marine Operations Supervisor and the Maintenance Mechanic (those employees

**Fishers Island Ferry District  
Schedule of Findings  
For the Year Ended December 31, 2015**

originating at the New London Terminal, except the Managers).

The Accounting Supervisor publishes the bi-weekly timesheets for employees originating in the New London terminal and posts them for employee signature prior to submitting the hours to the Town of Southold payroll department. In cases where the employee does not sign prior to submission to the Town, the Accounting Supervisor and/or the Marine Operations Supervisor will contact the employee and encourage them to sign the timesheet. The Business Manager or the Accounting Supervisor publishes the bi-weekly timesheets for employees whose work responsibilities are on Fishers Island. Where necessary, the Accounting Supervisor calculates corrections to hours, which are paid or deducted retroactively.

**Findings on Compliance**

**NC-2010-001 Non-collusion Statements**

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 an amendment to the procurement policy to include a statement of non-collusion. As of July 2016, the Town of Southold's non-collusion statement is included in bid documents and approved contracts as part of the procurement process.

**NC-2015-001 Bidding**

Appropriate bidding was not advertised properly on the South Ramp Project. There is no documentation of any bids besides the winning bid. The bill for this project was contested with the Town of Southold because the bidding was not done appropriately.

**Management's Response:** Management is revising the procurement policy with oversight and input from the District's general counsel. The procurement policy will be revised to conform to the State Comptroller's guidelines.

**Fishers Island Ferry District  
Schedule of Findings  
For the Year Ended December 31, 2015**

**NC-2015-002 Supervision of Employees**

An agreement was approved by the Board of Commissioners whereby an employee's duties were reassigned, except for performing special marine projects for the Manager. When the Manager left, no one was assigned the duty to oversee the employee and provide special projects to the employee. The employee continued to be paid a salary. It is unclear the amount of services, if any, provided in return and if any deductions should have been taken from the employee's leave time.

**Management's Response:** The Board approved the then Manager's recommendation in January 2014 on realigning responsibilities between the Marine Operations Supervisor and the Assistant Manager Marine Operations. Management is working with the consulting CPA to review this situation and outside HR counsel is preparing the necessary documentation to seek recovery of any over payment for leave accruals. Procedures will be developed to formalize all employee separation benefits for Board approval.