

Fishers Island Ferry District

A Component Unit of
the Town of Southold, New York

Financial Statements and
Supplementary Information

Year Ended December 31, 2016

Fishers Island Ferry District

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Independent Auditors' Report

The Board of Commissioners Fishers Island Ferry District

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fishers Island Ferry District ("District"), a component unit of the Town of Southold, New York, as of and for the year ended December 31, 2016, 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, 2016, 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 Required Supplementary Schedules, 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 September 29, 2017 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

September 29, 2017

Fishers Island Ferry District

Management's Discussion and Analysis
December 31, 2016

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2016**

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, 2016. 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 \$574,504 in 2016. The Government's unrestricted net position decreased by \$312,590.
- Fund balance, a measure of the Government's short term health, decreased by \$104,259 in the General Fund.
- The Government's 2016 budget planned to use \$171,000 of its fund balance to balance the budget. The Government actually used \$273,910 of its budget basis fund balance during 2016.

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.

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2016**

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. Fees for services, 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.

THE GOVERNMENT AS A WHOLE

The Government's *combined* net position decreased by \$574,504 from a year ago — *decreasing* from \$7,863,464 to \$7,288,960. Last year net position *decreased* by \$420,092. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Government.

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

	2016	Change During Year		2015
		Dollars	Percent	
Current and other assets	\$ 1,283,362	\$ 207,590	19.30%	\$ 1,075,772
Capital assets	9,079,993	(604,914)	-6.25%	9,684,907
Total assets	10,363,355	(397,324)	-3.69%	10,760,679
Deferred outflows of resources	676,069	527,848	356.12%	148,221
Long-term debt outstanding	2,660,707	206,390	8.41%	2,454,317
Other liabilities	874,499	462,909	112.47%	411,590
Total liabilities	3,535,206	669,299	23.35%	2,865,907
Deferred inflows of resources	215,258	35,729	19.90%	179,529
Net position				
Net investment in capital assets	7,585,993	(261,914)	-3.34%	7,847,907
Unrestricted	(297,033)	(312,590)	-2009.32%	15,557
Total net position	\$ 7,288,960	\$ (574,504)	-7.31%	\$ 7,863,464

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2016**

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

	2016	Change During Year		2015
		Dollars	Percent	
Revenues				
Program revenues				
Charges for services	\$ 2,883,049	50,005	1.77%	\$ 2,833,044
Operating grants and contributions	419,353	417,821	27272.91%	1,532
General revenues				
Property taxes	796,169	8,053	1.02%	788,116
Interest and investment earnings	383	(93)	-19.54%	476
Other general revenues	9,399	(70,286)	100.00%	79,685
Total revenues	<u>4,108,353</u>	<u>405,500</u>	10.95%	<u>3,702,853</u>
Program expenses				
General government	214,849	(148,597)	-40.89%	363,446
Ferry operations	3,836,585	190,520	5.23%	3,646,065
Airport	582,041	547,000	1561.03%	35,041
Theater	9,657	(3,220)	-25.01%	12,877
Rental activities	1,030	(8,019)	-88.62%	9,049
Interest on long-term debt	38,695	(17,772)	-31.47%	56,467
Total expenses	<u>4,682,857</u>	<u>559,912</u>	13.58%	<u>4,122,945</u>
Increase (decrease) in net position	<u>(574,504)</u>	<u>(154,412)</u>	36.76%	<u>(420,092)</u>
Beginning net position	<u>7,863,464</u>	<u>(420,092)</u>	-5.07%	<u>8,283,556</u>
Ending net position	<u>\$ 7,288,960</u>	<u>\$ (574,504)</u>		<u>\$ 7,863,464</u>

The Ferry District's long-term financial health is decreasing year over year. The easiest way to explain this is by starting with the budget. Even if the Ferry District passes a balanced budget each year on the modified accrual basis of accounting, the financial health is likely to decrease. This is because the budget does not consider the effects of depreciation on the long-term assets which is very significant. This year, the depreciation on long-term assets totaled \$604,914.

The significant changes in revenue between 2016 and 2015 were as follows:

- Charges for services relating to ferry operations increased \$39,087 primarily due to increases in revenue from charters and renting out the ferry ramp for other vehicles. The rent this year was \$21,000 due to a modular home being transported privately.
- Operating grants and contributions increased by \$417,821. This was mainly due to revenue of \$323,358 from a FEMA grant for airport repairs, and revenue of \$90,345 from a FAA grant for an airport environmental study. Both of these are considered operating grants, and not capital grants, because the airport is owned and capitalized on the Town of Southold's financial statements and not the Ferry District's financial statements.
- Other general revenues decreased mainly due to \$77,270 in premiums received on the refunding bond in 2015. No premiums were received in 2016.

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2016**

General government expenditures decreased \$148,597 due to a number of factors including:

- Legal fees and fines decreased due mainly to the resolution of ongoing litigation in 2016, the completion of union contract negotiations in 2015, and the resolution of legal settlements in 2015.
- Property tax expenditures decreased \$32,034 due to the payment of property taxes when due in 2017 as opposed to the payment of property taxes when billed in 2016. This resulted in only half a year of property tax expense in 2016.
- Bond issuance costs of \$15,720 were incurred in 2015. No bond issuance costs were incurred in 2016.

Ferry operations expenditures increased due to a number of factors including:

- A \$78,000 decrease in vacation and sick time payouts, mainly due to an employee that retired during 2015.
- A \$98,000 increase resulting from the change in the compensated absences liability. In 2015 the liability decreased \$64,000 due mainly to the employee retirement, while in 2016 it increased \$34,000.
- Increase of \$94,000 resulting from the change in pension expense resulting from participation in the New York State and Local Retirement System.
- Payroll expense increase of \$85,000 mainly due to contractual and merit raises.
- Increase of \$52,000 for worker compensation insurance.
- Required biennial repairs on the Race Point were moved from 2017 into 2016, changing the schedule for dry dock repairs. Both the Munnatawket and the Race Point were put into dry dock in 2016. The biennial repair schedule is now Munnatawket odd years and Race Point even years.
- Decrease of \$113,000 in dock repairs.

Airport expenditures increase of \$547,000 mainly due to expenses of approximately \$490,000 for the airport project which is being funded by the FEMA grant and \$90,000 for an environmental study funded by the FAA grant.

THE GOVERNMENT'S FUNDS

While the year showed a \$574,504 decrease in net position in Exhibit 2, it showed a \$510,011 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. 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.

The decrease in fund balance is due mainly to expenditures incurred for the airport project for which the Government has not yet received grant reimbursement approval from FEMA. Grant revenues of \$291,858 for which FEMA reimbursement is expected have been deferred in the General Fund resulting in an ending fund deficit of \$56,431.

**Fishers Island Ferry District
Management's Discussion and Analysis
December 31, 2016**

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 from one department that needs additional funding from other departments that might have excess funding. Below is a summarized view of the final budget and actual results for the General Fund:

**Table 3
General Fund - Budget Summary**

	Final Budget	Actual	Variance
Revenues			
Ferry	\$ 2,907,750	\$ 2,761,815	\$ (145,935)
Property tax	796,158	796,169	11
Property management	115,000	121,234	6,234
Grant revenue	610,496	430,486	(180,010)
Other	500	9,782	9,282
Total Revenues	4,429,904	4,119,486	(310,418)
Expenditures			
General government	394,900	370,948	23,952
Transportation	3,301,113	3,108,838	192,275
Theater	12,500	9,657	2,843
Employee benefits	506,382	517,944	(11,562)
Debt service	386,009	386,009	-
Total Expenditures	4,600,904	4,393,396	207,508
Increase (Decrease) in Fund Balance	\$ (171,000)	\$ (273,910)	\$ (102,910)

The original budget called for expenditures of \$4,278,104. During the year additional appropriations of \$322,800 were made. The original budget called for revenues of \$4,292,104. During the year additional revenues of \$137,800 were received that financed additional appropriations for the airport project. The net additional appropriation of \$185,000 was made to finance repairs on the Race Point. If everything happened right on budget, the Government would have used \$171,000 of its accumulated Fund Balance to balance the budget.

Actual revenues were \$310,418 less than anticipated and actual expenditures were \$207,508 less than budget resulting in budgetary deficiency of \$102,910 and a reduction of its fund balance on a budgetary basis of \$273,910.

Significant variances are summarized as follows:

- Ferry revenues were \$145,935 under budget. This was mainly due to ferry operation revenues that were \$160,423 less than budgeted, although comparable with prior years.
- Grant revenue was \$180,010 under budget mainly due to additional FEMA revenue that was requested and budgeted for but was not approved by FEMA during the year so it could not be recorded in the financial statements.
- Transportation expenditures were \$192,275 under budget mainly due to actual airport expenditures that were \$90,977 less than budgeted. In addition actual ferry operations equipment expenditures were \$62,169 less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of this year, the Government had \$9,079,993 invested government activity capital assets. This amount represents a net decrease (including additions and deductions) of \$604,914 from last year which is entirely the result of depreciation expense. No assets were capitalized during the year. More detailed information about the Ferry District's capital assets is presented in Note 3D to the financial statements.

Debt

At year end, the Government had \$1,494,000 in bonds outstanding. This is a decrease of \$343,000 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 2017 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, 2016

Statement of Net Position
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and equivalents	\$ 684,571
Receivables	365,731
Due from primary government	135,373
Prepaid expenses	97,687
Capital assets	
Nondepreciable	41,717
Depreciable, net of accumulated depreciation	<u>9,038,276</u>
Total Assets	<u>10,363,355</u>
DEFERRED OUTFLOWS OF RESOURCES	
Difference between expected and actual pension experience	3,299
Change in pension assumptions	174,111
Changes in proportion of pension liability	5,982
Net difference between projected and actual pension earnings	387,340
Contributions to pension after the measurement date	<u>105,337</u>
Total Deferred Outflows of Resources	<u>676,069</u>
LIABILITIES	
Accounts payable	743,743
Accrued payroll	99,802
Security deposit	15,474
Accrued interest payable	15,480
Noncurrent liabilities	
Due within one year	372,521
Due in more than one year	<u>2,288,186</u>
Total Liabilities	<u>3,535,206</u>
DEFERRED INFLOWS OF RESOURCES	
Changes in proportion of pension liability	2,494
Difference between expected and actual pension experience	77,391
Property taxes paid in advance	<u>135,373</u>
Total deferred inflows of resources	<u>215,258</u>
NET POSITION	
Net investment in capital assets	7,585,993
Unrestricted	<u>(297,033)</u>
Total Net Position	<u>\$ 7,288,960</u>

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

Fishers Island Ferry District

Exhibit 2

Statement of Activities
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total
Governmental activities					
General government	\$ (214,849)	\$ -	\$ -	\$ -	\$ (214,849)
Ferry operations	(3,836,585)	2,761,815	-	-	(1,074,770)
Airport	(582,041)	13,339	419,353	-	(149,349)
Theater	(9,657)	7,900	-	-	(1,757)
Rental activities	(1,030)	99,995	-	-	98,965
Interest on long-term debt	<u>(38,695)</u>	-	-	-	<u>(38,695)</u>
Total Government	<u>(4,682,857)</u>	<u>2,883,049</u>	<u>419,353</u>	<u>-</u>	<u>(1,380,455)</u>
General Revenues					
Property taxes, interest and liens					796,169
Interest and investment earnings					383
Miscellaneous					<u>9,399</u>
Total General Revenues					<u>805,951</u>
Change in Net Position					(574,504)
Net Position - Beginning of Year, as reported					<u>7,863,464</u>
Net Position - Ending					<u>\$ 7,288,960</u>

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

Balance Sheet
 Governmental Funds
 December 31, 2016

	General Fund	Capital Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 684,571	\$ -	\$ 684,571
Receivables	44,223	321,508	365,731
Due from primary government	135,373	-	135,373
Prepaid expenditures	<u>44,144</u>	<u>-</u>	<u>44,144</u>
 Total Assets	 <u>\$ 908,311</u>	 <u>\$ 321,508</u>	 <u>\$ 1,229,819</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE (DEFICIT)			
Liabilities			
Accounts payable	\$ 308,341	\$ 435,402	\$ 743,743
Accrued payroll	99,802	-	99,802
Security deposit	<u>15,474</u>	<u>-</u>	<u>15,474</u>
 Total Liabilities	 <u>423,617</u>	 <u>435,402</u>	 <u>859,019</u>
Deferred inflows of resources			
Taxes paid in advance	<u>135,373</u>	<u>-</u>	<u>135,373</u>
Fund balance (deficit)			
Nonspendable	44,144	-	44,144
Assigned	55,757	-	55,757
Unassigned	<u>249,420</u>	<u>(113,894)</u>	<u>135,526</u>
Total Fund Balance (Deficit)	<u>349,321</u>	<u>(113,894)</u>	<u>235,427</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balance	 <u>\$ 908,311</u>	 <u>\$ 321,508</u>	 <u>\$ 1,229,819</u>

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

Reconciliation of Governmental Funds Balance Sheet
to the Government Wide Statement of Net Position - Governmental Activities
December 31, 2016

Fund Balances - Total Governmental Funds	<u>\$ 235,427</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>9,079,993</u>
Difference in treatment of prepaid insurance	<u>53,543</u>
Deferred outflows - difference between expected and actual experience	3,299
Deferred outflows - change in assumptions	174,111
Deferred outflows - net difference between projected and actual earnings	387,340
Deferred outflows - contributions after the measurement date	105,337
Deferred outflows - change in proportion	5,982
Deferred inflows - difference between expected and actual experience	(77,391)
Deferred inflows - changes in proportion	<u>(2,494)</u>
	<u>596,184</u>
Long-term liabilities not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds, notes, capital leases payable and unamortized premiums	(1,494,000)
Compensated absences and special termination benefits	(194,083)
Pension liability	(652,907)
Other post-employment benefits	(319,717)
Accrued interest payable	<u>(15,480)</u>
	<u>(2,676,187)</u>
Net Position of Governmental Activities	<u>\$ 7,288,960</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, 2016

	General Fund	Capital Fund	Total Governmental Funds
REVENUES			
Ferry revenues	\$ 2,761,815	\$ -	\$ 2,761,815
Property taxes	796,169	-	796,169
Property management	121,234	-	121,234
Grants	108,978	321,508	430,486
Other	9,782	-	9,782
	<u>3,797,978</u>	<u>321,508</u>	<u>4,119,486</u>
Total Revenues			
EXPENDITURES			
Current			
General government	214,849	-	214,849
Ferry operations	3,140,800	-	3,140,800
Airport	149,892	435,402	585,294
Theater	9,657	-	9,657
Rental activities	1,030	-	1,030
Debt service			
Principal	893,000	-	893,000
Interest	43,009	-	43,009
	<u>4,452,237</u>	<u>435,402</u>	<u>4,887,639</u>
Total Expenditures			
Deficiency of Revenues over Expenditures	(654,259)	(113,894)	(768,153)
OTHER FINANCING SOURCES			
Issuance of long-term debt	550,000	-	550,000
	<u>550,000</u>	<u>-</u>	<u>550,000</u>
Net Change in Fund Balance	(104,259)	(113,894)	(218,153)
Fund Balance - Beginning of Year	453,580	-	453,580
	<u>453,580</u>	<u>-</u>	<u>453,580</u>
Fund Balance (Deficit) - End of Year	\$ 349,321	\$ (113,894)	\$ 235,427
	<u>\$ 349,321</u>	<u>\$ (113,894)</u>	<u>\$ 235,427</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, 2016

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

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (218,153)</u>
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	
Depreciation expense	<u>(604,914)</u>
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Federal grants	<u>(11,133)</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 - general obligation bond	(550,000)
Principal payments on long-term debt - bond anticipation note	699,000
Principal payments on long-term debt - bonds	<u>194,000</u>
	<u>343,000</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	(34,743)
Accrued interest	4,314
Pension liability	(68,456)
Other post-employment benefits liability	4,082
Difference in the treatment of insurance expense	<u>11,499</u>
	<u>(83,304)</u>
Change in Net Position of Governmental Activities	<u>\$ (574,504)</u>

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

Fishers Island Ferry District

Notes to Financial Statements
December 31, 2016

1. Summary of Significant Accounting Policies

The Fishers Island Ferry District (“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, 2016

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

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

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

Fund Categories

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

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.

The *Capital Fund* is used to account for the improvements to the Airport. The Airport is owned by the Town of Southold and these are capitalized on the Town's financial statements.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

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 are considered to be available if collected within sixty days of the fiscal year end. Reimbursement grants are considered to be available if they are collected within one year of the end of the current fiscal period. 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. Expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are recognized as revenue 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, 2016

1. Summary of Significant Accounting Policies (Continued)

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

Deposits, Cash and Equivalents, and Risk Disclosure

Cash and Equivalents - The Ferry District's cash and 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.

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, 2016 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 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.

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, 2016

1. Summary of Significant Accounting Policies (Continued)

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

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 31st, 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.

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, 2016

1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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.

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.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

1. Summary of Significant Accounting Policies (Continued)

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.
- 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.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

1. Summary of Significant Accounting Policies (Continued)

- 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 September 29, 2017.

2. Stewardship, Compliance and Accountability

A. Budget Basis

A formal, legally approved, annual budget is adopted for the combined General and Capital Funds. 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. In addition, the budget allows for encumbrances.

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 20th each year. After the public hearing, the Board of Commissioners meets to increase or decrease the annual estimates and prepares final budget estimates.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

2. Stewardship, Compliance and Accountability (Continued)

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

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

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 \$185,000 of additional appropriations were made. The appropriation for ferry operations, personal services was over expended by \$8,801 and social security was over expended by \$11,672.

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.

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.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

2. Stewardship, Compliance and Accountability (Continued)

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. Fund Deficit

The Capital Fund has an unassigned deficit of \$113,894 at December 31, 2016. This is due to expenditures on the Airport project exceeding the approved grant.

F. Application of Accounting Standards

For the year ended December 31, 2016, the District implemented:

- 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.
- GASB Statement 76 – *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments* – This statement identifies the current hierarchy of GAAP.
- GASB Statement 77 – *Tax Abatement Disclosures* – This Statement requires governments to disclose information about their tax abatements and agreements.
- 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.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

2. Stewardship, Compliance and Accountability (Continued)

- 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.

G. Cumulative Effect of Change in Accounting Principal

During the year ended December 31, 2016, the District changed its method of accounting for the property taxes paid to the City of New London to record the bill when due and paid instead of when the bill was received. Accordingly, only the portion of the bill due July 2016 was recorded in the fiscal year. The remaining portion of the bill due January 2017 will be paid and reported in 2017. There was no change in net position for the year ended December 31, 2015.

In addition, the Districted changed its period of availability under the modified accrual basis of accounting. All non-tax revenue will have a period of availability of one year. This was previously a sixty day period.

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, 2016:

Statement of Net Position	
Cash and equivalents	<u>\$ 684,571</u>

Cash and Cash Equivalents - As of December 31, 2016 the carrying amount of the District's deposits with financial institutions was:

Cash and Cash Equivalents	
Deposits with financial institutions	<u>\$ 684,571</u>

The bank balance of the deposits was \$683,714 and was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 341,316
Collateralized by securities held in trust	
In the Town's name	<u>342,398</u>
	<u>\$ 683,714</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 \$135,373 are recorded as deferred inflows of resources at December 31, 2016.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

2. Stewardship, Compliance and Accountability (Continued)

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, 2016 there were no interfund balances.

Fund transfers are generally used to fund special projects with general fund revenues. There were no transfers during the year ended December 31, 2016.

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	3,248,781	-	3,248,781
	<u>18,774,070</u>	<u>-</u>	<u>18,774,070</u>
Less accumulated depreciation	<u>(9,130,880)</u>	<u>(604,914)</u>	<u>(9,735,794)</u>
	<u>\$ 9,684,907</u>	<u>\$ (604,914)</u>	<u>\$ 9,079,993</u>

Depreciation expense of \$604,914 was charged to the ferry operations function of the governmental activities.

E. Long-Term Liabilities

The following table summarizes changes in the District's long-term indebtedness for the year ending December 31, 2016:

Type and Note	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-Term Portion
Bonds (3E1)	\$ 1,138,000	\$ 550,000	\$ 194,000	\$ 1,494,000	\$ 324,000	\$ 1,170,000
BANS (3E2)	699,000	-	699,000	-	-	-
Comp abs (3E3)	159,341	194,083	159,341	194,083	48,521	145,562
Pension (4A)	134,178	518,729	-	652,907	-	652,907
OPEB (4C)	323,799	35,845	39,927	319,717	-	319,717
	<u>\$ 2,454,318</u>	<u>\$ 1,298,657</u>	<u>\$ 1,092,268</u>	<u>\$ 2,660,707</u>	<u>\$ 372,521</u>	<u>\$ 2,288,186</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.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

3. Detailed Notes on All Funds (Continued)

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.

General obligation bonds and bond anticipation notes outstanding as of December 31, 2016 consisted of the following:

<u>Purpose</u>	<u>Year of Issue</u>	<u>Original Amount</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Amount Outstanding</u>
Public Improvement Bonds	2016	\$ 550,000	2021	1.25 - 1.5%	550,000
Refunding Bonds	2015	\$ 1,138,000	2021	2.00 - 4.76%	944,000
					<u>\$ 1,494,000</u>

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

<u>Year End</u>	<u>Principal</u>	<u>Interest</u>	<u>Year End</u>	<u>Principal</u>	<u>Interest</u>
2017	324,000	38,121	2020	265,000	14,299
2018	320,000	28,961	2021	265,000	4,999
2019	320,000	22,424		<u>\$ 1,494,000</u>	<u>\$ 108,804</u>

Interest cost incurred and expensed on general obligation bonds and bond anticipation notes for the year ended December 31, 2016.

2) Bond Anticipation Notes

The bond anticipation notes for \$699,000 were paid in full in fiscal year 2016.

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 described 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, 2016

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 Southhold'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	\$ 44,144
Assigned	
Encumbrances - ferry operations	\$ 55,757

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

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 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 2016 are as follows:

	<u>Tier/Plan/Option</u>	<u>Rate</u>
ERS	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, 2016

4. Pension and Other Post Retirement Plans (Continued)

At December 31, 2016, the District reported a liability of \$652,907 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of March 31, 2016, 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, 2016, the District's proportion was 0.004%. The District's proportion increased 0.0001% from the prior year.

For the year ended December 31, 2016, the District recognized pension expense in the government-wide financial statements of \$64,374. Pension expenditures of \$146,123 were recorded in the fund financial statements and were charged to the General Fund.

At December 31, 2016, 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	\$ 3,299	\$ 77,391
Changes of assumptions	174,111	-
Net difference between projected and actual earnings on pension plan investments	387,340	-
Changes in proportion and differences between District contributions and proportionate share of contributions	5,982	2,494
District contributions subsequent to the measurement date	105,337	-
	<u>\$ 676,069</u>	<u>\$ 79,885</u>

The \$105,337 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 pension 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,	
2017	\$ 124,281
2018	124,281
2019	124,281
2020	118,004
	<u>\$ 490,847</u>

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

4. Pension and Other Post Retirement Plans (Continued)

The total pension liability for the March 31, 2016 measurement date was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liabilities to March 31, 2016. The total pension liabilities for the March 31, 2015 measurement date were determined by using an actuarial valuation as of April 1, 2014. Significant assumptions used in the April 1, 2015 valuation were as follows:

Actuarial cost method	Entry Age Normal
Inflation	2.5%
Salary scale	3.8%
Investment rate of return	7.5% compounded annually, net of investment expenses, including inflation
Cost of living adjustment	1.3% annually

Annuitant mortality rates are based on the April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 and 2015 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, 2016

4. Pension and Other Post Retirement Plans (Continued)

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially 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 7.0%, 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 (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
District's proportionate share of the net pension liability (asset)	\$ 1,472,258	\$ 652,907	\$ (39,410)

The components of the net pension liability as of the March 31, 2016 measurement date were as follows:

Total pension liability	\$ 172,303,544,000
Fiduciary net position	<u>156,253,265,000</u>
Net pension liability	<u>\$ 16,050,279,000</u>
Fiduciary net position as a percentage of total pension liability	<u>90.7%</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 31st. Retirement contributions as of December 31, 2016 represent the employer contribution for the period of April 1, 2016 through December 31, 2016 based on prior year wages multiplied by the employer’s contribution rate, by tier. Retirement contributions for the nine months ended December 31, 2016 were \$105,337.

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, 2016

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, 2016	\$ 499,363
Assets at Market Value	-
Unfunded Actuarial Accrued Liability ("UAAL")	<u>\$ 499,363</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll (Active plan members)	<u>\$ 1,120,537</u>
UAAL as a Percentage of Covered Payroll	<u>44.56%</u>
Annual Required Contribution	\$ 41,864
Interest on Net OPEB Obligation	12,142
Adjustment to Annual Required Contribution	<u>(18,161)</u>
Annual OPEB Cost	35,845
Contributions made	<u>(39,927)</u>
Decrease in net OPEB Obligation	(4,082)
Net OPEB Obligation - Beginning of the year	323,799
Net OPEB Obligation - End of the year	<u>\$ 319,717</u>

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

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, 2016
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, 2016

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)
12/31/2016	\$ 35,845	\$ 39,927	111.4%	\$ 319,717
12/31/2015	34,753	48,010	138.1%	323,799
12/31/2014	31,317	28,017	89.5%	334,379

Funding Progress

As of the last valuation date, January 1, 2016, the actuarial valuation of the plan assets was \$0. The actuarial accrued liability was \$499,363. 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.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

5. Other Information (Continued)

D. Subsequent Debt Issues

On February 7, 2017, the District issued \$400,000 of Revenue Anticipation Notes, with interest at 2.25% to pay the current expenditures related to storm-related damage affecting Fishers Island Airport in anticipation of monies expected to be received from the Federal Emergency Management Administration. The note matures on February 7, 2018.

E. GASB Pronouncements Issued, But Not Yet Effective

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

- GASB Statement 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 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.
- GASB Statement 83 – *Certain Asset Retirement Obligations* – This Statement addresses accounting and financial reporting for certain asset retirement obligations and is effective for periods beginning after June 15, 2018.

Fishers Island Ferry District

Notes to Financial Statements (Continued)
December 31, 2016

5. Other Information (Continued)

- GASB Statement 84 – *Fiduciary Activities* – This Statement provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported and is effective for periods beginning after December 15, 2018.
- GASB Statement 85 – *Omnibus 2017* – This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements and effective for periods beginning after June 15, 2017.
- GASB Statement 86 – *Certain Debt Extinguishment Issues* – This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. It is effective for periods beginning after June 15, 2017.
- GASB Statement 87 – *Leases* – This Statement improves accounting and financial reporting for leases by governments and increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It is effective for periods beginning after December 15, 2019.

Fishers Island Ferry District

Required Supplementary Information
December 31, 2016

Required Supplementary Information
 Schedule of Revenues, Expenditures and Changes in Budgetary Fund Balance
 Budget and Actual (Budgetary Basis) - General Fund and Capital Fund
 For the Year Ended December 31, 2016

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Appropriations and Transfers	Final		
REVENUES					
Ferry Revenues					
Ferry operations	\$ 2,859,750	\$ -	\$ 2,859,750	\$ 2,699,327	\$ (160,423)
Charters	20,000	-	20,000	33,441	13,441
U.S. mail	28,000	-	28,000	29,047	1,047
Total Ferry Revenues	<u>2,907,750</u>	<u>-</u>	<u>2,907,750</u>	<u>2,761,815</u>	<u>(145,935)</u>
Property Tax Revenues					
Property taxes	796,158	-	796,158	796,158	-
Interest and penalties - real estate taxes	-	-	-	11	11
Total Property Tax Revenues	<u>796,158</u>	<u>-</u>	<u>796,158</u>	<u>796,169</u>	<u>11</u>
Property Management Revenue					
Service to other governments	92,000	-	92,000	99,995	7,995
Elizabeth Airport	15,000	-	15,000	13,339	(1,661)
Theater	8,000	-	8,000	7,900	(100)
Total Property Management Revenue	<u>115,000</u>	<u>-</u>	<u>115,000</u>	<u>121,234</u>	<u>6,234</u>
Grant Revenues					
NYS capital grant	-	7,800	7,800	5,650	(2,150)
Federal capital grant	-	130,000	130,000	101,478	(28,522)
FEMA aid - transportation	472,696	-	472,696	323,358	(149,338)
Total Grant Revenues	<u>472,696</u>	<u>137,800</u>	<u>610,496</u>	<u>430,486</u>	<u>(180,010)</u>
Other Revenues					
Interest earnings	500	-	500	383	(117)
Refund prior year expense	-	-	-	8,294	8,294
Other	-	-	-	1,105	1,105
Total Other Revenues	<u>500</u>	<u>-</u>	<u>500</u>	<u>9,782</u>	<u>9,282</u>
Total Revenues	<u>4,292,104</u>	<u>137,800</u>	<u>4,429,904</u>	<u>4,119,486</u>	<u>(310,418)</u>
EXPENDITURES					
General Government					
Accounting and finance	25,000	38,800	63,800	52,537	11,263
Legal fees	50,000	85,500	135,500	124,243	11,257
Insurance	88,300	66,200	154,500	154,499	1
Insurance claims	12,000	(6,000)	6,000	4,652	1,348
Property taxes	70,000	(36,500)	33,500	33,417	83
MTA payroll tax	2,000	(400)	1,600	1,600	-
Total General Government	<u>247,300</u>	<u>147,600</u>	<u>394,900</u>	<u>370,948</u>	<u>23,952</u>
Transportation					
Elizabeth airport	535,218	137,800	673,018	582,041	90,977
Dock repairs, capital	92,986	(8,000)	84,986	78,305	6,681
Ferry operations, personal services	1,325,000	39,915	1,364,915	1,373,716	(8,801)
Ferry operations, equipment	375,000	292,800	667,800	605,671	62,129
Ferry operations, contractual expense	699,000	(216,411)	482,589	442,734	39,855
Office expense, contractual expense	13,000	(1,045)	11,955	10,521	1,434
Commissioner fees	7,500	(1,250)	6,250	6,250	-
U.S. mail, contractual expense	9,600	-	9,600	9,600	-
Total Transportation	<u>3,057,304</u>	<u>243,809</u>	<u>3,301,113</u>	<u>3,108,838</u>	<u>192,275</u>

(Continued)

Required Supplementary Information
 Schedule of Revenues, Expenditures and Changes in Budgetary Fund Balance
 Budget and Actual (Budgetary Basis) - General Fund and Capital Fund
 For the Year Ended December 31, 2016

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Appropriations and Transfers	Final		
Theater, contractual expense	\$ 12,500	\$ -	\$ 12,500	\$ 9,657	\$ 2,843
Employee Benefits					
NYS retirement	175,000	(28,800)	146,200	146,123	77
Social security	126,000	(35,281)	90,719	102,391	(11,672)
Unemployment insurance	10,000	(4,700)	5,300	5,288	12
Medical insurance	255,000	9,163	264,163	264,142	21
Total Employee Benefits	566,000	(59,618)	506,382	517,944	(11,562)
Total General Government Expenditures	3,883,104	331,791	4,214,895	4,007,387	207,508
Debt Service					
Principal					
Serial bond	175,000	19,000	194,000	194,000	-
Bond anticipation note	150,000	(1,000)	149,000	149,000	-
Interest					
Serial bond	60,000	(25,507)	34,493	34,493	-
Bond anticipation note	10,000	(1,484)	8,516	8,516	-
Total Debt Service	395,000	(8,991)	386,009	386,009	-
Total Expenditures	4,278,104	322,800	4,600,904	4,393,396	207,508
Excess (deficiency) of revenues over expenditures- Budgetary Basis	\$ 14,000	\$ (185,000)	\$ (171,000)	\$ (273,910)	\$ (102,910)
Adjustments to Generally Accepted Accounting Principles (GAAP)					
Reversal of encumbrances recorded on budget basis, but not on the Modified Accrual Basis:				55,757	
Net effects of capital fund removed				113,894	
General obligation bond proceeds netted with retirement of Bond Anticipation Note				550,000	
Retirement of Bond Anticipation Note netted with General Obligation Bond proceeds				(550,000)	
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses) - GAAP basis - General Fund				\$ (104,259)	

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, (2) Encumbrances are shown as expenses.

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

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
1/1/2016	\$ -	\$ 499,363	\$ 499,363	0.00%	\$1,120,537	44.56%
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%

See Independent Auditors' Report

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

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
12/31/2016	\$ 41,864	\$ 39,927	95.37%
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%

See Independent Auditors' Report

Required Supplementary Information
New York State and Local Retirement System
December 31, 2016

**Schedule of Changes in Net Pension Liability and Related Ratios
Since Inception of GASB 68**

	<u>2016</u>	<u>2015</u>
District's percentage of collective net pension liability	0.00406789%	0.00397181%
District's portion net pension liability	<u>\$ 652,907</u>	<u>\$ 134,178</u>
District's covered payroll	<u>\$ 1,151,836</u>	<u>\$ 1,036,238</u>
District's portion net pension liability as a % of covered payroll	<u>56.68%</u>	<u>12.95%</u>
Plan Fiduciary net position as a % of total pension liability	<u>90.70%</u>	<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	\$ 184,333	\$ 190,486
District's contributions in relation to the statutorily required contribution	<u>\$ 184,333</u>	<u>\$ 190,486</u>
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	<u>\$ 1,151,836</u>	<u>\$ 1,085,875</u>
District's contributions as a percentage of covered employee payroll	<u>16.00%</u>	<u>17.54%</u>

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

See Independent Auditors' Report

Fishers Island Ferry District

Internal Control and Compliance Reports
December 31, 2016

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Fishers Island Ferry District ("District") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 10, 2017.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be material weaknesses as items 2010-003, and 2010-007.

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. We did not audit the District's response and, accordingly, we express no opinion on it.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the 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

September 29, 2017

**Fishers Island Ferry District
Schedule of Findings
For the Year Ended December 31, 2016**

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-2010-003 – 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 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** are 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 all.

Management's Response: We have been working to develop a coordinated set of policies and procedures. During the year ended December 31, 2016, the reconciliation function was segregated from the custody and recording function. There will be 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. Currently, the same individual may collect cash receipts and record those payments. To segregate the collection function from the recording function, we installed a cash register in 2017 as a temporary measure. In addition, in 2018 we are planning to install an integrated inventory system.

We are eliminating the ticket books. All unsold ticket books will be shredded by November 15, 2017. Tickets from previously sold ticket books will be accepted for passage up until an expiration date of October 1, 2018.

In June 2016, we began working with a consulting CPA to update our policies and procedures, including segregation of duties. This manual will be completed by March 15, 2018.

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, 2016**

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. 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 by November 30, 2017.