

FISHERS ISLAND FERRY DISTRICT
(A Component Unit of the Town of Southold, New York)

**Basic Financial Statements,
Supplementary Information and
Independent Auditors' Report**

December 31, 2018

FISHERS ISLAND FERRY DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Fishers Island Ferry District
New London, Connecticut:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Fishers Island Ferry District (the District), a component unit of the Town of Southold, New York, as of and for the year ended December 31, 2018, and the related notes to 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 from 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 District'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 District'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 that 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 Fishers Island Ferry District as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in note 1(s) to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 9 and the other required supplementary information on pages 39 through 43 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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 July 25, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's 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.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 25, 2019

FISHERS ISLAND FERRY DISTRICT
Management's Discussion and Analysis
December 31, 2018

Our discussion and analysis of Fishers Island Ferry District's (the District) financial performance provides an overview of the District's financial activities for the year ended December 31, 2018.

FINANCIAL HIGHLIGHTS

The most notable highlight we can provide is that in a government's financial statements, there are three different bases of accounting each used for a different purpose:

- Budget Basis - Management and the Commissioners control the finances using the budget. This is intended to show the inflows and outflows of working capital. The budget represents our plan and the results are shown as the actual. Our plan was to break even during the year. Through tight controls of our spending, we did \$216,539 better than our budget in the general fund.
- Modified Accrual Basis - Our budget is converted to Generally Accepted Accounting Principles (GAAP) by removing the timing differences created by encumbrances. This still measures the increase or decrease in fund balance which you can think of as a measure of working capital. Our general fund's fund balance increased by \$216,539 while our capital project fund's fund balance decreased \$115,739.
- Full Accrual Basis - This calculates the District's financial position similar to how a business would report their financial position and is a measure of the District's long-term health. The District's total net position decreased by \$25,405. The biggest change between the modified accrual basis and the full accrual basis of accounting is the effect of recording depreciation expense on the District's capital assets.

We will discuss and explain each of these in more detail in this document.

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial 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 District's operations in more detail than the government-wide statements. Finally, we report the results of the actual against the budget for just one fund, the most significant fund - the general fund.

We will be discussing these starting with the general fund budget so you can have a better understanding of how the various statements build from this basic data.

FISHERS ISLAND FERRY DISTRICT
 Management's Discussion and Analysis, Continued

General Fund Budgetary Highlights

The Board of Commissioners approves a budget for Management to follow based on their best estimate of revenues and expenditures for the year. This must also be approved by the Town of Southold's Board. Over the course of the year, the Commissioners can revise the budget with additional appropriations and budget transfers. These are also 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.

The detailed budget vs actual schedule is reported behind the notes to the financial statements. Below is a summarized view of the final budget and actual results for the General Fund:

Table 1

General Fund - Budget Summary

| | <u>Budget</u> | <u>Actual</u> | <u>Final Variance</u> |
|------------------------|-----------------------|------------------|---------------------------|
| Revenue: | | | |
| Ferry | \$ 2,930,281 | 2,956,002 | 25,721 |
| Property tax | 826,140 | 826,150 | 10 |
| Property management | 136,000 | 118,005 | (17,995) |
| Grants | - | 178,737 | 178,737 |
| Other | <u>106,754</u> | <u>121,035</u> | <u>14,281</u> |
| Total revenue | <u>3,999,175</u> | <u>4,199,929</u> | <u>200,754</u> |
| Expenditures: | | | |
| General government | 288,400 | 275,720 | 12,680 |
| Transportation | 2,717,831 | 2,728,083 | (10,252) |
| Theater | 13,600 | 13,538 | 62 |
| Employee benefits | 605,882 | 592,788 | 13,094 |
| Debt service | <u>373,462</u> | <u>373,261</u> | <u>201</u> |
| Total expenditures | <u>3,999,175</u> | <u>3,983,390</u> | <u>15,785</u> |
| Change in fund balance | \$ <u> -</u> | <u>216,539</u> | <u>216,539</u> |

The original budget called for expenditures of \$3,892,780. During the year additional appropriations of \$106,395 were made and this was expected to be covered by additional revenues so the budget continued to balance.

FISHERS ISLAND FERRY DISTRICT
Management's Discussion and Analysis, Continued

Actual revenues, although similar to prior years, were \$200,754 more than anticipated. Management worked hard to control expenditures. As a result, expenditures were \$15,785 less than the budget allowed. The net affect was that the District did \$216,539 better than budgeted.

Significant variances are summarized as follows:

- Ferry revenues were \$25,721 over budget, although comparable with prior years.
- Grant revenue was \$178,737 over budget mainly due to receiving reimbursement from FEMA which was budgeted in the prior year.

The District's Funds - General Fund and Capital Projects Fund

The District's 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, similar to working capital.

The fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The fund financial statements provide detailed information about the District's funds, not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Commissioners may establish 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.

The general fund results are similar to the budget results with the difference necessitated by encumbrances which are used in the budget. Encumbrances are used in the budget for convenience, but are not GAAP expenditures. It changes the timing of expenditure so that they can be posted when there is a firm commitment for purchasing goods or services. For example, one ferry is taken out of service in the winter for repairs and maintenance. GAAP requires that only the actual amount of repairs and maintenance completed as of December 31st be reported as expenditures. It would be impossible to predict this 18 months in advance without knowing the weather, vendor's schedules, etc. Encumbrances allow the District to report the expenditures when a contract is signed, or a purchase order is issued, regardless of the weather or vendor's schedule.

The District's second fund, the capital fund, is used for specific large capital projects. This year the fund balance, a measure of working capital, was reduced as the District spent \$119,909 on capital projects. This was funded by \$290,000 in short term borrowings.

FISHERS ISLAND FERRY DISTRICT
Management's Discussion and Analysis, Continued

Reporting the District as a Whole

The statement of net position and the statement of activities report information about the District as a whole and about its activities in a way that helps to show the District's overall financial health and whether it is improving or declining. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

In the statement of net position and the statement of activities, the District shows the District's basic services, 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.

While the year showed a \$100,800 combined increase in fund balance, the modified accrual equity, the District's net position decreased \$25,405. The reason for this difference is primarily the treatment of long-term debt and capital assets.

Proceeds from long-term debt are shown as revenue, and an increase in fund balance, on the modified accrual basis and principal payments on long-term debt are an expenditure, a reduction in fund balance, when the payments on the debt are made. This is because fund balance is similar to a measure of working capital and working capital is increased or decreased by the cash flow in and out created by long-term debt. Debt proceeds and payments are never a direct increase or reduction in net position on the government-wide statements because long-term debt transactions are recorded as a liability.

Likewise, construction or purchases of capital assets are a reduction in fund balance when the working capital is used. Capital asset construction or purchases are never a direct reduction in net position on the government-wide statements, instead they are reported as capital assets and depreciation is deducted over the estimated useful life.

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 the reconciliations on pages 13 and 15.

The District implemented Governmental Accounting Standards Board (GASB) Statement No 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," during the year ended December 31, 2018. This required restating opening net position as shown in note 19.

The District's combined net position decreased by \$25,405 from a year ago. Last year net position decreased by \$189,025. Our analysis below focuses on the net position (Table 2) and changes in net position (Table 3) of the District.

FISHERS ISLAND FERRY DISTRICT
Management's Discussion and Analysis, Continued

Table 2

| | <u>Net Position (on Exhibit 1)</u> | | | |
|----------------------------------|------------------------------------|------------------|----------------|-------------------|
| | <u>Change During Year</u> | | | <u>2017*</u> |
| | <u>2018</u> | <u>Dollars</u> | <u>Percent</u> | |
| Current assets | \$ 1,431,729 | (502,152) | (26.0%) | 1,933,881 |
| Noncurrent assets | <u>8,557,262</u> | <u>(413,720)</u> | (4.6%) | <u>8,970,982</u> |
| Total assets | <u>9,988,991</u> | <u>(915,872)</u> | (8.4%) | <u>10,904,863</u> |
| Deferred outflows of resources | <u>725,835</u> | <u>314,666</u> | 76.5% | <u>411,169</u> |
| Current liabilities | 1,260,565 | (535,690) | (29.8%) | 1,796,255 |
| Noncurrent liabilities | <u>1,926,123</u> | <u>(421,219)</u> | (17.9%) | <u>2,347,342</u> |
| Total liabilities | <u>3,186,688</u> | <u>(956,909)</u> | (23.1%) | <u>4,143,597</u> |
| Deferred inflows of resources | <u>676,254</u> | <u>381,108</u> | 129.1% | <u>295,146</u> |
| Net investment in capital assets | 6,877,262 | (21,074) | (0.3%) | 6,898,336 |
| Unrestricted (deficit) | <u>(25,378)</u> | <u>(4,331)</u> | 20.6% | <u>(21,047)</u> |
| Total net position | \$ <u>6,851,884</u> | <u>(25,405)</u> | (0.4%) | <u>6,877,289</u> |

* 2017 amounts have been restated to reflect implementation of GASB No. 75. Other amounts have been reclassified to conform with the current presentation.

Noncurrent assets decreased \$413,720 as current year depreciation of \$550,850 exceeded current year capital asset additions of \$137,130.

Deferred outflows of resources increased \$314,666 primarily as a result of implementation of GASB No. 75.

Current liabilities decreased \$535,690 primarily due to the prior year having revenue anticipation notes of \$400,000 outstanding at December 31, 2017.

Noncurrent liabilities decreased \$421,219 as bond payments of \$320,000 and a decrease in the net pension liability - proportionate share (as reported by NYS) of \$278,941 outweighed increases in compensated absences and total OPEB liability of \$19,382 and \$158,340, respectively.

Deferred inflows of resources increased \$381,108 primarily due to an increase in amounts related to the net pension liability - proportionate share (as reported by NYS).

FISHERS ISLAND FERRY DISTRICT
Management's Discussion and Analysis, Continued

Table 3

| | <u>Change in Net Position (on Exhibit 2)</u> | | | <u>2017</u> |
|------------------------------------|--|---------------------------|----------------|------------------|
| | <u>2018</u> | <u>Change During Year</u> | | |
| | | <u>Dollars</u> | <u>Percent</u> | |
| Revenue: | | | | |
| Program revenue: | | | | |
| Charges for services | \$ 3,074,007 | 68,145 | 2.3% | 3,005,862 |
| Operating grants and contributions | 178,737 | 128,118 | 253.1% | 50,619 |
| General revenue: | | | | |
| Property taxes | 826,150 | 22,004 | 2.7% | 804,146 |
| Interest and investment earnings | 504 | 85 | 20.3% | 419 |
| Miscellaneous | <u>126,776</u> | <u>69,227</u> | 120.3% | <u>57,549</u> |
| Total revenue | <u>4,206,174</u> | <u>287,579</u> | | <u>3,918,595</u> |
| Program expenses: | | | | |
| General government | 188,959 | (19,824) | (9.5%) | 208,783 |
| Ferry operations | 3,867,424 | 58,941 | 1.5% | 3,808,483 |
| Airport | 69,723 | 23,896 | 52.1% | 45,827 |
| Theater | 13,538 | 8,349 | 160.9% | 5,189 |
| Rental activities | 44,474 | 37,462 | 534.3% | 7,012 |
| Interest on long-term debt | <u>47,461</u> | <u>15,135</u> | 46.8% | <u>32,326</u> |
| Total expenses | <u>4,231,579</u> | <u>123,959</u> | 3.0% | <u>4,107,620</u> |
| Change in net position | \$ <u>(25,405)</u> | <u>163,620</u> | 86.6% | <u>(189,025)</u> |

The significant changes in revenue between 2018 and 2017 were as follows:

- Charges for services relating to ferry operations increased \$68,145 primarily due to increases in revenue from passengers, as well as rate increases in freight charges.
- Operating grants and contributions increased by \$128,118 due to receipt of grant revenues from FEMA for prior year's expenditures. These were not accrued in the prior financial statements as they had not been approved by FEMA.
- Other general revenues increased \$69,227 mainly due to a refund from the State of Connecticut for prior year's diesel excise taxes.
- Ferry operations expenditures increased primarily due to increased wage and benefits costs exceeding savings in other areas.

FISHERS ISLAND FERRY DISTRICT
Management's Discussion and Analysis, Continued

Capital Assets

At the end of this year, the District's capital assets, net of accumulated depreciation, totaled \$8,557,262. This amount represents a net decrease (including additions and deductions) of \$413,720 from last year. Expenditures of \$137,130 were capitalized during the year. More detailed information about the District's capital assets is presented in note 6 to the financial statements.

Debt

At year end, the District had \$850,000 in bonds outstanding. This is a decrease of \$320,000 from last year. The District's general obligation bonds carry an Aa1 rating. More detailed information about the District's long-term liabilities is presented in note 8 to the financial statements.

Economic Factors and Next Year's Budget

The District's Commissioners and Management considered many factors when setting the 2019 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 DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the 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, New York 06390.

FISHERS ISLAND FERRY DISTRICT
Statement of Net Position
December 31, 2018

| | <u>Primary Government Governmental Activities</u> |
|---------------------------------------|---|
| <u>Assets</u> | |
| Current assets: | |
| Cash | \$ 1,110,869 |
| Receivables | 48,304 |
| Due from primary government | 168,326 |
| Due from state and federal | 23,211 |
| Prepaid expenses | <u>81,019</u> |
| Total current assets | <u>1,431,729</u> |
| Noncurrent assets: | |
| Capital assets, non-depreciable | 227,953 |
| Capital assets, depreciable, net | <u>8,329,309</u> |
| Total noncurrent assets | <u>8,557,262</u> |
| Total assets | <u>9,988,991</u> |
| <u>Deferred Outflows of Resources</u> | |
| Pensions | 524,441 |
| OPEB | <u>201,394</u> |
| Total deferred outflows of resources | <u>725,835</u> |
| <u>Liabilities</u> | |
| Current liabilities: | |
| Accounts payable | 147,517 |
| Accrued payroll | 117,284 |
| Security deposits | 17,377 |
| Accrued interest payable | 8,387 |
| Bond anticipation notes payable | 970,000 |
| Noncurrent liabilities: | |
| Due within one year | 375,790 |
| Due in more than one year | <u>1,550,333</u> |
| Total liabilities | <u>3,186,688</u> |
| <u>Deferred Inflows of Resources</u> | |
| Pensions | 507,931 |
| Property taxes paid in advance | <u>168,323</u> |
| Total deferred inflows of resources | <u>676,254</u> |
| <u>Net Position</u> | |
| Net investment in capital assets | 6,877,262 |
| Unrestricted (deficit) | <u>(25,378)</u> |
| Total net position | <u>\$ 6,851,884</u> |

See accompanying notes to financial statements.

FISHERS ISLAND FERRY DISTRICT
Statement of Activities
Year ended December 31, 2018

| <u>Functions</u> | <u>Expenses</u> | <u>Program Revenue</u> | | | <u>Net (Expense) Revenue and Changes in Net Position - Primary Government Governmental activities</u> |
|---|-----------------|---------------------------------|---|---|---|
| | | <u>Charges for services</u> | <u>Operating grants and Contributions</u> | <u>Capital grants and Contributions</u> | |
| Governmental activities: | | | | | |
| General government | \$ 188,959 | - | - | - | (188,959) |
| Ferry operations | 3,867,424 | 2,956,002 | - | - | (911,422) |
| Airport | 69,723 | 13,633 | 178,737 | - | 122,647 |
| Theater | 13,538 | - | - | - | (13,538) |
| Rental activities | 44,474 | 104,372 | - | - | 59,898 |
| Interest on long-term debt | 47,461 | - | - | - | (47,461) |
| Total governmental activities | \$ 4,231,579 | 3,074,007 | 178,737 | - | (978,835) |
| General revenue: | | | | | |
| Real property taxes, interest and liens | | | | | 826,150 |
| Interest and investment earnings | | | | | 504 |
| Miscellaneous | | | | | 126,776 |
| Total general revenue | | | | | 953,430 |
| Change in net position | | | | | (25,405) |
| Net position at beginning of year, before restatement | | | | | 7,099,935 |
| Cumulative effect of change in accounting principle (note 19) | | | | | (222,646) |
| Net position at beginning of year, after restatement | | | | | 6,877,289 |
| Net position at end of year | | | | | \$ 6,851,884 |

See accompanying notes to financial statements.

FISHERS ISLAND FERRY DISTRICT
Balance Sheet - Governmental Funds
December 31, 2018

| | <u>General Fund</u> | <u>Capital Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|-------------------------|---|
| <u>Assets</u> | | | |
| Cash | \$ 1,110,869 | - | 1,110,869 |
| Receivables | 48,304 | - | 48,304 |
| Due from other funds | - | 310,857 | 310,857 |
| Due from primary government | 168,326 | - | 168,326 |
| Due from state and federal | 23,211 | - | 23,211 |
| Prepaid expenditures | 39,442 | - | 39,442 |
| Total assets | <u>\$ 1,390,152</u> | <u>310,857</u> | <u>1,701,009</u> |
| <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u> | | | |
| Liabilities: | | | |
| Accounts payable | 142,443 | 5,074 | 147,517 |
| Accrued payroll | 117,284 | - | 117,284 |
| Security deposits | 17,377 | - | 17,377 |
| Due to other funds | 310,857 | - | 310,857 |
| Bond anticipation notes payable | - | 970,000 | 970,000 |
| Total liabilities | <u>587,961</u> | <u>975,074</u> | <u>1,563,035</u> |
| Deferred inflows of resources - taxes paid in advance | <u>168,323</u> | - | <u>168,323</u> |
| Fund balances: | | | |
| Nonspendable | 39,442 | - | 39,442 |
| Unassigned (deficit) | 594,426 | (664,217) | (69,791) |
| Total fund balances | <u>633,868</u> | <u>(664,217)</u> | <u>(30,349)</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 1,390,152</u> | <u>310,857</u> | <u>1,701,009</u> |

See accompanying notes to financial statements.

FISHERS ISLAND FERRY DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
December 31, 2018

| | | |
|--|------------|--------------|
| Total fund balances - governmental funds | | \$ (30,349) |
| 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. | | 8,557,262 |
| Difference in treatment of prepaid insurance | | 41,577 |
| Deferred outflows of resources and deferred inflows resources related to the net pension liability - proportionate share and total OPEB liability are not reported in the funds. | | |
| Deferred outflow of resources: | | |
| Pensions | \$ 524,441 | |
| OPEB | 201,394 | |
| Deferred inflows of resources - pensions | (507,931) | 217,904 |
| Long-term liabilities not due and payable in the current period and, therefore, are not reported in the funds. | | |
| Bonds payable | (850,000) | |
| Compensated absences | (223,159) | |
| Net pension liability - proportionate share | (158,365) | |
| Total OPEB liability | (694,599) | |
| Accrued interest payable | (8,387) | (1,934,510) |
| Total net position - governmental activities | | \$ 6,851,884 |

See accompanying notes to financial statements.

FISHERS ISLAND FERRY DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balances -
Governmental Funds
Year ended December 31, 2018

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--------------------------------------|---|
| Revenue: | | | |
| Ferry | \$ 2,956,002 | - | 2,956,002 |
| Property taxes | 826,150 | - | 826,150 |
| Property management | 118,005 | - | 118,005 |
| Grants | 178,737 | - | 178,737 |
| Other | 121,035 | - | 121,035 |
| | <u>4,199,929</u> | <u>-</u> | <u>4,199,929</u> |
| Total revenue | | | |
| Expenditures: | | | |
| General government | 192,679 | 2,077 | 194,756 |
| Ferry operations | 3,289,715 | - | 3,289,715 |
| Airport | 69,723 | - | 69,723 |
| Theater | 13,538 | - | 13,538 |
| Rental activities | 44,474 | - | 44,474 |
| Debt service: | | | |
| Principal | 320,000 | - | 320,000 |
| Interest | 53,261 | - | 53,261 |
| Capital outlay | - | 119,909 | 119,909 |
| | <u>3,983,390</u> | <u>121,986</u> | <u>4,105,376</u> |
| Total expenditures | | | |
| Excess (deficiency) of revenue over expenditures | 216,539 | (121,986) | 94,553 |
| Other financing sources - premium on financing | - | 6,247 | 6,247 |
| | <u>216,539</u> | <u>(115,739)</u> | <u>100,800</u> |
| Net change in fund balance | | | |
| Fund balances (deficit) at beginning of year | 417,329 | (548,478) | (131,149) |
| Fund balances (deficit) at end of year | <u>\$ 633,868</u> | <u>(664,217)</u> | <u>(30,349)</u> |

See accompanying notes to financial statements.

FISHERS ISLAND FERRY DISTRICT
Reconciliation of the Statement of Revenue, Expenditures and Changes in
Fund Balances - Governmental Funds to the Statement of Activities
Year ended December 31, 2018

| | | |
|--|------------------|--------------------|
| Net change in fund balances - governmental funds | | \$ 100,800 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. | | |
| Capitalized assets | \$ 137,130 | |
| Depreciation expense | <u>(550,850)</u> | (413,720) |
| 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. | | |
| Principal payments on long-term debt - bonds | | 320,000 |
| Changes in deferred outflows of resources and deferred inflows of resources related to the net pension liability - proportionate share and total OPEB liability are not reported in the funds. | | |
| Deferred outflows of resources: | | |
| Pensions | 113,272 | |
| OPEB | 201,394 | |
| Deferred inflows of resources - pensions | <u>(439,694)</u> | (125,028) |
| 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 the governmental funds. | | |
| Compensated absences | (19,382) | |
| Accrued interest | 5,800 | |
| Pension liability | 278,941 | |
| Total OPEB liability | (158,340) | |
| Difference in the treatment of insurance expense | <u>(14,476)</u> | <u>92,543</u> |
| Change in net position of governmental activities | | <u>\$ (25,405)</u> |

See accompanying notes to financial statements.

FISHERS ISLAND FERRY DISTRICT

Notes to Financial Statements

December 31, 2018

(1) Summary of Significant Accounting Policies

The Fishers Island Ferry District (the District) was created in 1947 by a special act of legislation within the State of New York, known as the Ferry District Enabling Act. As a district, much like a school district or fire district, the District is allowed to levy and collect taxes in addition to collecting fares, in order to offset its expenses. The tax levy is assigned to the property owners of Fishers Island and the collections are kept separate from Town of Southold, New York (the 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 District is a component unit of the Town.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Basis of Presentation

(1) Government-wide 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.

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.

(2) 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, 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 of the government-wide presentation.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

(2) Fund Financial Statements, Continued

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:

- 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 improvements that are bonded or grant funded. This includes large projects for the vessels (Munnatawket repowering) and District property (dolphin and piling replacements and dredging in Silver Eel Cove).

(c) Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and similar items is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used 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.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Measurement Focus and Basis of Accounting, Continued

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 postemployment 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, premiums on debt issuances, and acquisitions under capital leases are reported as other financing sources.

(d) Cash and Equivalents

The 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 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 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 District's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2018 because of these custodial agreements

(e) 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.

(f) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District'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 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.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) 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.

(h) 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.

(i) Property Taxes

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 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 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.

(j) 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.

(k) Capital Assets

Capital assets are reported at historical costs. The District depreciates capital assets using the straight-line method over the estimated useful life of the assets. Capitalization thresholds (the dollar value above which capital asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Capital Assets, Continued

| | <u>Capitalization Threshold</u> | <u>Estimated Estimated Useful Life</u> |
|----------------------------|-------------------------------------|--|
| Land | \$ 5,000 | N/A |
| Construction in progress | 5,000 | N/A |
| Buildings and improvements | 5,000 | 20 to 40 |
| Machinery and equipment | 5,000 | 5 to 40 |
| Infrastructure | 5,000 | 20 |
| Intangible assets | 5,000 | Varies |

(l) Deferred Outflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The deferred outflows of resources reported in the statement of net position relates to (a) pensions and consists of the District's proportionate share of changes in the collective net pension liability not included in the collective pension expense and District contributions to the pension system subsequent to the measurement date and (b) changes in the total OPEB liability not included in OPEB expense and benefit payments subsequent to the measurement date.

(m) Deferred Inflows of Resources

Deferred inflows of resources 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. The deferred inflows of resources reported in the statement of net position includes real property taxes of the District collected in December belonging to the following year levy. Also included in this item is the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension systems not included in the pension expense. Deferred inflows of resources reported in the balance sheet - governmental funds are real property taxes of the District collected in December belonging to the following year levy.

(n) 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

(1) Summary of Significant Accounting Policies, Continued

(o) 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.

(p) Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred 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 remaining balance is classified as unrestricted.

(q) Fund Balance

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

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

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(q) Fund Balance, Continued

- Assigned fund balance, in the General Fund, represents amounts constrained either by the Town Supervisor or a person with delegated authority from the governing board to assign amounts for a specific intended purpose including balancing the subsequent year's budget or for encumbrances. Unlike commitments, assignments generally only exist temporarily, in that additional action does not normally have to be taken for the removal of an assignment. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balance in all funds except the General Fund includes all remaining amounts, except for negative balances, that are not classified as nonspendable and are neither restricted nor committed.
- Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets.

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

(r) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(s) Change in Accounting Principles

For the year ended December 31, 2018, the District implemented GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The implementation of the Statement requires the District to report total OPEB liability, expenses and deferred outflows of resources and deferred inflows of resources on the full accrual basis.

(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.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(2) Stewardship, Compliance and Accountability, Continued

(b) Budget Calendar

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

The District's Board of Commissioners submits its budget estimates for the subsequent calendar year to the Town's Supervisor on or before September 20th. The Town Supervisor adds estimates of debt service and incorporates the District budget into his Tentative Budget and files this with the Town's Clerk no later than September 30th. The Town Clerk presents the Tentative Budget to the 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 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 unassigned fund balance at the end of the current year may be utilized for this purpose. During the year \$106,395 of additional appropriations and transfers were made.

(d) Property Tax Limitation

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.

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

(2) Stewardship, Compliance and Accountability, Continued

(d) Property Tax Limitation, 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.

(3) Cash

As of December 31, 2018 the carrying amount of the District’s deposits with financial institutions was:

Cash:

| | |
|--------------------------------------|------------------|
| Deposits with financial institutions | \$ 1,108,469 |
| Petty cash | <u>2,400</u> |
| Total cash | <u>1,110,869</u> |

The bank balance of the deposits was \$1,098,842 and was exposed to custodial credit risk as follows:

| | |
|---|---------------------|
| Covered by Federal Depository Insurance | \$ 450,645 |
| Collateralized by securities held in trust on behalf of the District by the Town | <u>648,197</u> |
| | <u>\$ 1,098,842</u> |

(4) Receivables and Deferred 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 \$168,323 are recorded as deferred inflows of resources at December 31, 2018.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(5) Interfund Activity

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. Interfund receivables and payables at December 31, 2018 were as follows:

| <u>Fund</u> | <u>Interfund receivables</u> | <u>Interfund payables</u> |
|-------------|----------------------------------|-------------------------------|
| General | \$ - | 310,857 |
| Capital | <u>310,857</u> | <u>-</u> |
| Total | \$ <u>310,857</u> | <u>310,857</u> |

Fund transfers are generally used to fund special projects with general fund revenues. There were no transfers during the year ended December 31, 2018.

(6) Capital Assets

Capital asset balances and activity for the year ended December 31, 2018 were as follows:

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Disposals and reclassifications</u> | <u>Ending balance</u> |
|--|------------------------------|------------------|--|---------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets, nondepreciable: | | | | |
| Land | \$ 41,717 | - | - | 41,717 |
| Construction in progress | <u>66,327</u> | <u>119,909</u> | - | <u>186,236</u> |
| Total capital assets, nondepreciable | <u>108,044</u> | <u>119,909</u> | - | <u>227,953</u> |
| Capital assets, depreciable: | | | | |
| Buildings and improvements | 12,583,229 | - | - | 12,583,229 |
| Machinery and equipment | 2,977,751 | 17,221 | - | 2,994,972 |
| Infrastructure | <u>3,633,595</u> | - | - | <u>3,633,595</u> |
| Total capital assets depreciable | 19,194,575 | 17,221 | - | 19,211,796 |
| Less accumulated depreciation | <u>(10,331,637)</u> | <u>(550,850)</u> | - | <u>(10,882,487)</u> |
| Total capital assets, depreciable, net of depreciation | <u>8,862,938</u> | <u>(533,629)</u> | - | <u>8,329,309</u> |
| Total capital assets, net of depreciation | <u>\$ 8,970,982</u> | <u>(413,720)</u> | - | <u>8,557,262</u> |

Depreciation expense of \$550,850 was charged to ferry operations in the statement of activities.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(7) Bond Anticipation Notes

The schedule below details the changes in bond anticipation notes.

| <u>Purpose</u> | <u>Year of Original Issue</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Balance</u> | <u>Additions</u> | <u>Redeemed</u> | <u>Balance</u> |
|---------------------------|-----------------------------------|--------------------------|--------------------------|----------------------------|------------------|--------------------------------|------------------------------|
| | | | | <u>January 1, 2018</u> | | <u>From Appropriations</u> | <u>December 31, 2018</u> |
| Ferry Pilings | 2017 | 9/19 | 3.00% | \$ 380,000 | - | - | 380,000 |
| Munnatawket Engine | 2017 | 9/19 | 3.00% | 300,000 | - | - | 300,000 |
| Munnatawket Engine | 2018 | 9/19 | 3.00% | - | 150,000 | - | 150,000 |
| Dredge Silver Eel Channel | 2018 | 9/19 | 3.00% | - | 140,000 | - | 140,000 |
| | | | | <u>\$ 680,000</u> | <u>290,000</u> | <u>-</u> | <u>970,000</u> |

Liabilities for bond anticipation notes are generally accounted for in the capital projects fund. Principal payments on bond anticipation notes must be made annually. State law requires that bond anticipation notes issued for capital purposes be converted to long-term obligations generally within five years after the original issue date. However, bond anticipation notes issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

Interest expenditures on short-term borrowings of \$15,300 were recorded in the general fund.

(8) Long-Term Liabilities

The following table summarizes the changes in the Districts long-term liabilities for the year ended December 31, 2018:

| | <u>Balance January 1, 2018</u> | <u>New issues/ additions</u> | <u>Maturities and/or payments</u> | <u>Balance December 31, 2018</u> | <u>Due within one year</u> |
|--|--|--------------------------------------|---|--|------------------------------------|
| Bonds payable | \$ 1,170,000 | - | (320,000) | 850,000 | 320,000 |
| Compensated absences (note 10) | 203,777 | 19,382 | - | 223,159 | 55,790 |
| Net pension liability - proportionate share (note 11) | 437,306 | - | (278,941) | 158,365 | - |
| Total OPEB liability* (note 12) | <u>536,259</u> | <u>158,340</u> | <u>-</u> | <u>694,599</u> | <u>-</u> |
| Total bonds | <u>\$ 2,347,342</u> | <u>177,722</u> | <u>(598,941)</u> | <u>1,926,123</u> | <u>375,790</u> |

* Total OPEB liability has been restated due to implementation of GASB No. 75, see note 19.

Bonds Payable

The District borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(8) Long-Term Liabilities, Continued

At December 31, 2018 the total principal indebtedness outstanding the District aggregated \$850,000.

The following is a summary of the District's outstanding serial bonds for the year ending December 31, 2018:

| <u>Description</u> | <u>Original Date of Issue</u> | <u>Final Maturity</u> | <u>Interest Rate</u> | <u>Original Amount</u> | <u>Amount Outstanding 12/31/18</u> |
|--------------------------|---------------------------------------|---------------------------|--------------------------|----------------------------|--|
| Public improvement bonds | 2016 | 2021 | 1.25%-1.50% | \$ 550,000 | 290,000 |
| Refunding bonds | 2015 | 2021 | 2.00%-4.76% | <u>1,138,000</u> | <u>560,000</u> |
| Total | | | | <u>\$ 1,688,000</u> | <u>850,000</u> |

Interest on long-term debt paid during the year was:

| | |
|--|------------------|
| Interest paid on long-term debt (general fund) | \$ 28,961 |
| Less: interest accrued - prior year | (14,187) |
| Plus: interest accrued - current year | <u>8,378</u> |
| Interest expense on long-term debt (government-wide) | <u>\$ 23,152</u> |

Payments to Maturity

The annual requirements to amortize all bonds outstanding as of December 31, 2018 is as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-------------------|-----------------|----------------|
| 2019 | \$ 320,000 | 22,424 | 342,424 |
| 2020 | 265,000 | 14,299 | 279,299 |
| 2021 | <u>265,000</u> | <u>4,999</u> | <u>269,999</u> |
| Total serial bonds | <u>\$ 850,000</u> | <u>41,722</u> | <u>891,722</u> |

(9) 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 District, must authorize debt through a resolution of its local board. The 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.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(10) 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 District's Employee Benefit Package. The value of all compensated absences has been reflected in the government-wide financial statements.

(11) Pension Plans

(a) Plan Description

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.

(b) Funding Policy

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 and before April 1, 2012 who generally contribute 3 percent of their salary for their entire length of service. Those joining on or after April 1, 2012 are required to contribute between 3 and 6 percent, dependent on salary, throughout their working careers. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems fiscal year ending March 31.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(11) Pension Plans, Continued

(b) Funding Policy, Continued

The District is not a separate employer under this plan. The District is included in the plan as a part of the Town. 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.

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

| | <u>ERS</u> |
|------|------------|
| 2018 | \$ 157,766 |
| 2017 | 187,239 |
| 2016 | 184,333 |

Pension expenditures of \$155,613, \$146,980 and \$146,123 were reported in the fund financial statements and were charged to the general fund during the years ended December 31, 2018, 2017 and 2016, respectively.

(c) Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the District reported the following liability for its proportionate share of the net pension liability for ERS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS System in a report provided to the District.

| | |
|---|------------|
| Actuarial valuation date | 4/01/2017 |
| Measurement date | 3/31/2018 |
| Net pension liability | \$158,365 |
| District's proportion of the Plan's net pension liability | 0.0049068% |

For the year ended December 31, 2018, the District recognized pension expense of \$203,094 for ERS in the statement of activities. At December 31, 2018, the District's proportionate share was 0.0049068% which was an increase of 0.0002527 from its proportion as of December 31, 2017.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(11) Pension Plans, Continued

(c) Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

At December 31, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 56,484 | 46,676 |
| Changes of assumptions | 105,009 | 454,022 |
| Net difference between projected and actual investment earnings on pension plan investments | 230,013 | - |
| Changes in proportion and differences between the District's contributions and proportionate share of contributions | <u>14,611</u> | <u>7,233</u> |
| | 406,117 | 507,931 |
| District's contributions subsequent to the measurement date | <u>118,324</u> | <u>-</u> |
| Total | \$ <u>524,441</u> | <u>507,931</u> |

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ending</u> | |
|--------------------|--------------------|
| 2019 | \$ 36,553 |
| 2020 | 28,966 |
| 2021 | (113,345) |
| 2022 | <u>(53,988)</u> |
| | <u>\$(101,814)</u> |

(d) Actuarial Assumptions

The total pension liability for the March 31, 2018 measurement date was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The actuarial valuations for ERS used the following actuarial assumptions:

| | |
|--|------|
| Inflation | 2.5% |
| Salary increases | 3.8% |
| Investment rate of return (net of investment expense, including inflation) | 7.0% |
| Cost of living adjustments | 1.3% |

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(11) Pension Plans, Continued

(d) Actuarial Assumptions, Continued

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

The actuarial assumptions used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| | Long-term expected real rate of return* | Target allocation |
|----------------------------|--|----------------------|
| Asset type: | | |
| Domestic equity | 4.55% | 36.00% |
| International equity | 6.35% | 14.00% |
| Private equity | 7.50% | 10.00% |
| Real estate | 5.55% | 10.00% |
| Absolute return strategies | 3.75% | 2.00% |
| Opportunistic portfolio | 5.68% | 3.00% |
| Real assets | 5.29% | 3.00% |
| Bonds and mortgages | 1.31% | 17.00% |
| Cash | (0.25%) | 1.00% |
| Inflation - indexed bonds | 1.25% | 4.00% |

* The real rate of return is net of the long-term inflation assumption of 2.50%.

(e) Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially 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.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(11) Pension Plans, Continued

(f) Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate

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 asset (liability) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

| | 1% Decrease (6.0%) | Current Assumption (7.0%) | 1% Increase (8.0%) |
|--|--------------------------|---------------------------------|--------------------------|
| Employer's proportionate share of the net pension asset (liability) | \$ <u>(1,198,232)</u> | <u>(158,365)</u> | <u>721,321</u> |

(g) Pension Plan Fiduciary Net Position

The components of the collective net pension liability of participating employers as of the March 31, 2018 measurement date, were as follows:

| | (Dollars in Millions) |
|---|-----------------------|
| Employers' total pension liability | \$(183,401) |
| Plan fiduciary net position | <u>180,173</u> |
| Employers' net pension liability | \$ <u>(3,228)</u> |
| System fiduciary net position as a percentage of total pension liability | 98.24% |

(12) Total Other Postemployment Benefits Liability

(a) General Information about the OPEB Plan

Plan Description - The District's other postemployment benefit program is a single-employer defined benefit plan administered by the 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.

Benefits Provided - The District provides medical, prescription drug and behavioral health to retirees and, in some cases, to their covered dependents. The District pays up to \$3,000 of the cost for retirees, disabled retirees, spouses and dependents. Retirees pay the balance of the premium over \$3,000 per year. All active employees who retire or are disabled directly from the District and meet the eligibility criteria will participate. Eligibility criteria is full-time service at the time of retirement, age 55 and receiving benefits from the Employee Retirement System, and 10 consecutive years of service with the District (20 years of service and the District provides no dependent coverage if hired after July 1, 2003.)

Employees Covered by Benefit Terms - At December 31, 2018, the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefit payments | 10 |
| Active employees | <u>13</u> |
| Total | <u>23</u> |

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(12) Total Other Postemployment Benefits Liability, Continued

(b) Total OPEB Liability

The District's total OPEB liability of \$694,599 was measured as of January 1, 2018 and was determined by an actuarial valuation as of January 1, 2018.

Actuarial Assumptions and Other Inputs - The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------------|-------|
| Discount rate | 3.44% |
| Medical Trend Rate | 8.00% |
| Ultimate Medical Trend Rate | 5.00% |
| Year Ultimate Trend Rates Reached | 2025 |

(c) Changes in Total OPEB Liability

| | |
|--|-------------------|
| Balance at December 31, 2017 | \$ 536,259 |
| Changes for the year: | |
| Service cost | 9,082 |
| Interest | 18,963 |
| Changes in benefit terms | - |
| Differences between expected and actual experience | 140,447 |
| Changes in assumptions and other inputs | 29,509 |
| Benefit payments | <u>(39,661)</u> |
| Net changes | <u>158,340</u> |
| Balance at December 31, 2018 | \$ <u>694,599</u> |

(d) Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.44%) or 1 percentage point higher (4.44%) than the current discount rate:

| | 1% Decrease (2.44%) | Discount Rate (3.44%) | 1% Increase (4.44%) |
|----------------------|------------------------|--------------------------|------------------------|
| Total OPEB liability | \$ <u>752,844</u> | <u>694,599</u> | <u>617,654</u> |

(e) Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (7.00% to 4.00%) or 1 percentage point higher (9.00% to 6.00%) than the current healthcare cost trend rate:

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(12) Total Other Postemployment Benefits Liability, Continued

(e) Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates, Continued

| | 1% Decrease (7.00% decreasing to 4.00%) | Healthcare Cost Trend Rate (8.00% decreasing to 5.00%) | 1% Increase (9.00% decreasing to 6.00%) |
|----------------------|--|--|--|
| Total OPEB liability | \$ <u>639,031</u> | <u>694,599</u> | <u>751,690</u> |

(f) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year December 31, 2018, the District recognized OPEB expense of \$39,375. At December 31, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience changes in assumptions | \$ 140,447 | - |
| Changes in assumption | <u>29,509</u> | - |
| | 169,956 | - |
| Contributions subsequent to the measurement date | <u>31,438</u> | - |
| | \$ <u>201,394</u> | - |

District contributions subsequent to the measurement date will be recognized as a reduction in the total OPEB liability in the year ending December 31, 2019. Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year Ending</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2019 | \$ 11,330 |
| 2020 | 11,330 |
| 2021 | 11,330 |
| 2022 | 11,330 |
| 2023 | 11,330 |
| Thereafter | <u>113,306</u> |
| | \$ <u>169,956</u> |

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(13) 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, and is calculated as follows:

| | |
|----------------------------------|---------------------|
| Capital assets, net | \$ 8,557,262 |
| Less: | |
| BANs payable | (830,000) |
| Bonds payable | <u>(850,000)</u> |
| Net investment in capital assets | \$ <u>6,877,262</u> |

(14) 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.

(15) Contingencies

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 District expects such amounts, if any, to be immaterial.

(16) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

(17) Subsequent Events

Management has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued and has determined that following should be disclosed:

On January 7, 2019, the District entered into an agreement to purchase a high speed ferry boat (the ferry) for \$460,000.

On May 15, 2019, the District entered into an agreement with the Town to finance the purchase of the ferry prior to the issuance of debt. Amounts to be financed by the Town are not to exceed \$460,000 and carry an interest rate of 2.5% per year.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(18) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 83 - "Certain Asset Retirement Obligations." This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). Governments that have legal obligations to perform certain future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning January 1, 2019 for the District. This Statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 84 - "Fiduciary Activities." This Statement, issued in January 2017, established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning January 1, 2019 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

GASB Statement No. 87 - "Leases." This Statement, issued in June 2017, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019, which is the fiscal year beginning January 1, 2020 for the District. Management is in process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

The GASB has issued GASB Statement No. 88 - "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." This Statement, issued in April of 2018, requires that additional essential information related to debt be disclosed in notes to financial statements. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning January 1, 2019 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

FISHERS ISLAND FERRY DISTRICT
Notes to Financial Statements, Continued

(18) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 89 - “Accounting for Interest Cost Incurred before the End of a Construction Period.” This Statement, issued in June 2018, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 - “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” which are superseded by this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, which is the fiscal year beginning January 1, 2020 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

GASB Statement No. 90 - “Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61.” This Statement, issued in August 2018, seeks to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and sets parameters as to whether a majority equity interest is to be reported as an investment or component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning January 1, 2019 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

GASB Statement No. 91 - “Conduit Debt Obligations.” This Statement, issued in May of 2019, requires a single method be used for the reporting of conduit debt obligations. The focus of the Statement is to improve financial reporting by eliminating diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, which is the fiscal year beginning January 1, 2021 for the District. Management is in the process of evaluating the potential impact of this Statement on the financial statements of the District.

(19) Cumulative Effect of Change in Accounting Principle

During the year ended December 31, 2018, the District implemented GASB Statement No. 75 - “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” Implementation of this Statement required restatement of the governmental activities statement of net position as of December 31, 2017. The effect of this restatement was:

| | |
|--|---------------------|
| Net position, before restatement | \$ 7,099,935 |
| Cumulative effect of change in accounting principle: | |
| GASB Statement No. 45 - reversal of OPEB obligation | 313,613 |
| GASB Statement No. 75 - beginning OPEB liability | <u>(536,259)</u> |
| Net position, as restated | \$ <u>6,877,289</u> |

FISHERS ISLAND FERRY DISTRICT
 Required Supplementary Information
 Schedule of Revenue and Expenditures - Budget to Actual -
 General Fund
 Year ended December 31, 2018

| | Budget | | Budgetary Basis | | Variance |
|--|------------------|------------------|------------------|--------------|---|
| | Adopted | Modified | Actual | Encumbrances | with Modified Budget Positive (Negative) |
| Revenue: | | | | | |
| Ferry revenue: | | | | | |
| Ferry operations | \$ 2,875,280 | 2,875,281 | 2,910,636 | - | 35,355 |
| Charters | 25,000 | 25,000 | 15,366 | - | (9,634) |
| U.S. mail | 30,000 | 30,000 | 30,000 | - | - |
| Total ferry revenue | <u>2,930,280</u> | <u>2,930,281</u> | <u>2,956,002</u> | <u>-</u> | <u>25,721</u> |
| Property tax revenue: | | | | | |
| Property taxes | 826,140 | 826,140 | 826,140 | - | - |
| Interest and penalties - real estate taxes | - | - | 10 | - | 10 |
| Total property tax revenue | <u>826,140</u> | <u>826,140</u> | <u>826,150</u> | <u>-</u> | <u>10</u> |
| Property management revenue: | | | | | |
| Services, other governments | 121,000 | 121,000 | 104,372 | - | (16,628) |
| Elizabeth Airport | 15,000 | 15,000 | 13,633 | - | (1,367) |
| Total property management revenue | <u>136,000</u> | <u>136,000</u> | <u>118,005</u> | <u>-</u> | <u>(17,995)</u> |
| Grant revenue: | | | | | |
| NYS capital grant | - | - | 3,211 | - | 3,211 |
| Federal capital grant | - | - | 54,566 | - | 54,566 |
| FEMA aid - transportation | - | - | 120,960 | - | 120,960 |
| Total grant revenue | <u>-</u> | <u>-</u> | <u>178,737</u> | <u>-</u> | <u>178,737</u> |
| Other revenue: | | | | | |
| Interest earnings | 360 | 360 | 504 | - | 144 |
| Refund prior year expense | - | 106,394 | 120,246 | - | 13,852 |
| Other | - | - | 285 | - | 285 |
| Total other revenue | <u>360</u> | <u>106,754</u> | <u>121,035</u> | <u>-</u> | <u>14,281</u> |
| Total revenue | <u>3,892,780</u> | <u>3,999,175</u> | <u>4,199,929</u> | <u>-</u> | <u>200,754</u> |
| Expenditures: | | | | | |
| General government: | | | | | |
| Accounting and finance | 30,000 | 34,000 | 31,661 | - | 2,339 |
| Legal fees | 75,000 | 85,000 | 82,531 | - | 2,469 |
| Insurance | 103,500 | 85,500 | 79,810 | - | 5,690 |
| Insurance claims | 5,000 | 9,150 | 8,259 | - | 891 |
| Property taxes | 77,000 | 70,700 | 70,227 | - | 473 |
| MTA payroll tax | 3,550 | 4,050 | 3,232 | - | 818 |
| Total general government | <u>294,050</u> | <u>288,400</u> | <u>275,720</u> | <u>-</u> | <u>12,680</u> |

(Continued)

FISHERS ISLAND FERRY DISTRICT
 Required Supplementary Information
 Schedule of Revenue and Expenditures - Budget to Actual -
 General Fund, Continued

| | Budget | | Budgetary Basis | | Variance with Modified Budget Positive (Negative) |
|---|------------------|------------------|------------------|--------------|---|
| | Adopted | Modified | Actual | Encumbrances | |
| Expenditures: | | | | | |
| Transportation: | | | | | |
| Elizabeth airport | \$ 22,000 | 69,000 | 66,470 | - | 2,530 |
| Dock repairs, capital | 115,000 | 163,900 | 149,654 | - | 14,246 |
| Ferry operations: | | | | | |
| Personal services | 1,542,137 | 1,643,137 | 1,612,946 | - | 30,191 |
| Equipment | 350,000 | 285,000 | 376,827 | - | (91,827) |
| Contractual expense | 534,000 | 531,394 | 499,552 | - | 31,842 |
| Office expense, contractual expense | 10,000 | 8,500 | 6,634 | - | 1,866 |
| Commissioner fees | 7,000 | 7,000 | 6,100 | - | 900 |
| U.S. mail, contractual expense | 9,600 | 9,900 | 9,900 | - | - |
| Total transportation | <u>2,589,737</u> | <u>2,717,831</u> | <u>2,728,083</u> | - | <u>(10,252)</u> |
| Theater, contractual expense | 5,000 | 13,600 | 13,538 | - | 62 |
| Employee benefits: | | | | | |
| NYS retirement | 160,000 | 160,000 | 155,613 | - | 4,387 |
| Social security | 118,000 | 121,000 | 119,842 | - | 1,158 |
| Unemployment insurance | 5,000 | 1,500 | - | - | 1,500 |
| Medical insurance | 344,532 | 323,382 | 317,333 | - | 6,049 |
| Total employee benefits | <u>627,532</u> | <u>605,882</u> | <u>592,788</u> | - | <u>13,094</u> |
| Total expenditures, excluding debt service | <u>3,516,319</u> | <u>3,625,713</u> | <u>3,610,129</u> | - | <u>15,584</u> |
| Debt service: | | | | | |
| Principal - serial bond | 320,000 | 320,000 | 320,000 | - | - |
| Interest - serial bond | 28,961 | 28,962 | 28,961 | - | 1 |
| Interest - bond anticipation note | 19,500 | 15,500 | 15,300 | - | 200 |
| Interest - revenue anticipation note | 8,000 | 9,000 | 9,000 | - | - |
| Total debt service | <u>376,461</u> | <u>373,462</u> | <u>373,261</u> | - | <u>201</u> |
| Total expenditures | <u>3,892,780</u> | <u>3,999,175</u> | <u>3,983,390</u> | - | <u>15,785</u> |
| Excess of revenue over expenditures | <u>\$ -</u> | <u>-</u> | <u>216,539</u> | - | <u>216,539</u> |

FISHERS ISLAND FERRY DISTRICT
 Required Supplementary Information
 Schedule of District's Proportionate Share of the Net Pension Liability
 Year ended December 31, 2018

| <u>ERS</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------|-------------|-------------|-------------|
| The District's proportion of the net pension liability | 0.0049068% | 0.0046541% | 0.0040679% | 0.0039718% |
| The District's proportionate share of the net pension liability | \$ 158,365 | 437,306 | 652,907 | 134,178 |
| The District's covered payroll | \$ 1,377,625 | 1,259,173 | 1,151,836 | 1,036,238 |
| The District's proportionate share of the net pension liability as a percentage of covered payroll | 11.50% | 34.73% | 56.68% | 12.95% |
| Plan fiduciary net position as a percentage of the total pension liability | 98.2% | 94.7% | 90.7% | 97.9% |

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District is presenting information for those years for which information is available.

FISHERS ISLAND FERRY DISTRICT
 Required Supplementary Information
 Schedule of District's Pension Contributions
 For the year ended December 31, 2018

| <u>ERS System</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 157,766 | 187,239 | 184,333 | 190,846 |
| Contribution in relation to the contractually required contribution | <u>157,766</u> | <u>187,239</u> | <u>184,333</u> | <u>190,846</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| District's covered payroll | \$ 1,377,625 | 1,259,173 | 1,151,836 | 1,036,238 |
| Contribution as a percentage of covered payroll | 11.45% | 14.87% | 16.00% | 18.42% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District is presenting information for those years for which information is available.

FISHERS ISLAND FERRY DISTRICT
 Required Supplementary Information
 Schedule of Changes in the District's
 Total OPEB Liability and Related Ratios
 Year ended December 31, 2018

| | |
|---|-------------------|
| Total OPEB liability | |
| Service cost | \$ 9,082 |
| Interest | 18,963 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | 140,447 |
| Changes in assumptions or other inputs | 29,509 |
| Benefit payments | <u>(39,661)</u> |
| Net change in total OPEB liability | 158,340 |
| Total OPEB liability - beginning | <u>536,259</u> |
| Total OPEB liability- ending | <u>\$ 694,599</u> |
| Covered payroll | \$ 1,259,800 |
| Total OPEB liability as a percentage of covered payroll | 55.1% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, information is presented for those years that are available.

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
New London, Connecticut:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Fishers Island Ferry District (the District), a component unit of the Town of Southold, New York, as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 25, 2019.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 25, 2019

REPORT TO THE BOARD

July 25, 2019

The Board of Commissioners
Fishers Island Ferry District

Dear Board Members:

We have audited the financial statements of the governmental activities and each major fund of Fishers Island Ferry District (the District), a component unit of the Town of Southold, New York, for the year ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated January 14, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Accounting Principles

Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies used by the District are described in note 1 to the financial statements. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

As described in note 1(s) to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," during the year ended December 31, 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

- Compensated absences - Management's estimate of the compensated absences liability is based on vested accumulated sick, vacation and/or leave payouts.
- Pension plans - Management's estimate for pension plan amounts are derived from reports provided by New York State and Local Retirement System.
- Total OPEB liability - Management's estimate of postemployment benefits is calculated using assumptions for future years health care benefits and contributions.

We evaluated the key factors and assumptions used by management in determining that accounting estimates were reasonable in relation to the financial statements taken as a whole.

Significant Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of pension plans in note 11 to the financial statements.
- The disclosure of total other postemployment benefits liability in note 12 to the financial statements.
- The disclosure of contingencies in note 15 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to appointment as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our appointment.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, the schedule of revenue and expenditures - budget to actual - general fund, the schedule of changes in the District’s total OPEB liability and related ratios, the schedule of District’s proportionate share of the net pension liability and the schedule of District’s pension contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

* * * * *

This information is intended solely for the use of the Board of Commissioners and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

EFPR Group, CPAs, PLLC
EFPR GROUP, CPAs, PLLC