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Craig, Fitzsimmons & Meyer, LLP

CERTIFIED PUBLIC ACCOUNTANTS

**TOWN OF SHELTER ISLAND
COMMUNITY PRESERVATION FUND**
*(A Special Revenue Fund of
The Town of Shelter Island, New York)*
Special Purpose Presentation
Financial Statements
Independent Auditor's Reports
For the Year Ended December 31, 2021



TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

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DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

The Honorable Supervisor and Town Board
Town of Shelter Island
Shelter Island, New York

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the Town of Shelter Island Community Preservation Fund, as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying fund financial statements referred to above present fairly, in all material respects, the respective financial position of the Town of Shelter Island Community Preservation Fund, as of December 31, 2021, and the respective changes in fund balance for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Shelter Island Community Preservation Fund, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Town of Shelter Island Community Preservation Fund are intended to present the fund balance and the changes in fund balance, of only that portion of the financial activities of the Town of Shelter Island that is attributable to the transactions of the Community Preservation Fund. They do not purport to, and do not, present fairly the financial position of the Town of Shelter Island, as of December 31, 2021 or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Shelter Island Community Preservation Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Town of Shelter Island Community Preservation Fund's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Shelter Island Community Preservation Fund's ability to continue **as a** going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2022, on our consideration of the Town of Shelter Island Community Preservation Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Shelter Island Community Preservation Fund'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 Town of Shelter Island Community Preservation Fund's internal control over financial reporting and compliance.



Smithtown, NY
September 15, 2022

TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

(A Special Revenue Fund of the Town of Shelter Island, New York)

BALANCE SHEET

DECEMBER 31, 2021

<u>ASSETS</u>	<u>Operating Fund</u>	<u>Water Quality Improvement Project Fund</u>	<u>Total</u>
Cash and cash equivalents			
Cash - restricted	\$ 6,815,224	\$ -	\$ 6,815,224
Cash in time deposits - restricted	5,906,232	-	5,906,232
Prepaid expenditures	5,675	-	5,675
Interfund receivable	-	2,542,636	2,542,636
Due from other funds	97,694	-	97,694
Due from other governments	<u>1,111,641</u>	<u>-</u>	<u>1,111,641</u>
Total assets	<u>\$ 13,936,466</u>	<u>\$ 2,542,636</u>	<u>\$ 16,479,102</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 17,949	\$ -	\$ 17,949
Interfund payable	2,542,636	-	2,542,636
Due to other funds	<u>6,019</u>	<u>-</u>	<u>6,019</u>
Total liabilities	<u>2,566,604</u>	<u>-</u>	<u>2,566,604</u>
<u>FUND BALANCE</u>			
Nonspendable: prepaids	5,675	-	5,675
Restricted	<u>11,364,187</u>	<u>2,542,636</u>	<u>13,906,823</u>
Total fund balance	<u>11,369,862</u>	<u>2,542,636</u>	<u>13,912,498</u>
Total liabilities and fund balance	<u>\$ 13,936,466</u>	<u>\$ 2,542,636</u>	<u>\$ 16,479,102</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

(A Special Revenue Fund of the Town of Shelter Island, New York)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Operating Fund</u>	<u>Water Quality Improvement Project Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Non-property taxes	\$ 4,064,522	\$ 1,016,131	\$ 5,080,653
Use of money and property	2,786	-	2,786
Gifts and donations	200	-	200
	<u>4,067,508</u>	<u>1,016,131</u>	<u>5,083,639</u>
Total revenues			
<u>EXPENDITURES</u>			
Home and community services			
Administrative	6,489	-	6,489
Land acquisition	22,618	-	22,618
Stewardship	138,707	-	138,707
Water quality improvement projects	-	125,708	125,708
	<u>167,814</u>	<u>125,708</u>	<u>293,522</u>
Total expenditures			
Excess of revenues over expenditures	<u>3,899,694</u>	<u>890,423</u>	<u>4,790,117</u>
<u>OTHER FINANCING (USES)</u>			
Operating transfers (out)	-	{10,000}	{10,000}
	<u>-</u>	<u>{10,000}</u>	<u>{10,000}</u>
Total other financing (uses)			
Net change in fund balances for year	3,899,694	880,423	4,780,117
Fund Balances - beginning of year, as adjusted (Note 8)	<u>7,470,168</u>	<u>1,662,213</u>	<u>9,132,381</u>
Fund Balances - end of year	<u>\$ 11,369,862</u>	<u>\$ 2,542,636</u>	<u>\$ 13,912,498</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

(A Special Revenue Fund of the Town of Shelter Island, New York)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

1. Summary of Significant Accounting Policies

The Town of Shelter Island Community Preservation Fund (Community Preservation Fund) was created by Section 64-e of New York State Town Law during 1998 as a Reserve for Community Preservation. The Community Preservation Fund is a special revenue fund of the Town of Shelter Island, New York (Town) and is governed by the Town Board. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the Community Preservation Fund are as follows:

a. Organization and Background

The Community Preservation Fund is supported by revenues from a 2% real estate transfer tax imposed by the Town pursuant to Article 31-D of New York State Tax Law. The authority to levy and collect the tax expires on December 31, 2050. This revenue is used to purchase historic lands and buildings, parks and recreation properties, open space and forestlands, wetlands, beaches and shoreline and farmland for the purpose of land preservation, and to provide for the management and stewardship program for such purchases, and to implement water quality improvement projects. The Town has become a leader in land preservation with the assistance of some matching funds from other governments. The Community Preservation Fund program advances the Town's goals in wetlands and open space preservation, protection of historical sites, and establishment of parks and recreation areas and for water quality improvement projects.

In 2016, the Town Code was amended to permit the Town to use up to 20% of the Community Preservation Fund revenues to undertake water quality improvement projects.

b. Basis of Presentation

These financial statements only report the operations and related transactions of the Community Preservation Fund; whereby the audited financial statements of the Town of Shelter Island include all Town funds. Additionally, the financial statements of the Town of Shelter Island would include all non-current assets and non-current liabilities for all Town funds.

- I. Operating Fund - This fund is the principal operating fund of the Community Preservation Fund. It is used to account for all financial resources related to the acquisition of open space land and for the preservation, management and stewardship of such.
- II. Water Quality Improvement Project Fund - This fund is used to account for the activities related to water quality improvement projects.

c. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. These financial statements are accounted for using the current financial resources focus and follows the modified accrual basis of accounting used to prepare the Annual Financial Report Update Document (AFRUD), required to be filed by the Town with the Office of the New York State Comptroller (OSC). With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be reasonably determined, and "available" means the related cash resources are collectible within the current period or within the first 60 days of the following year.

TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

(A Special Revenue Fund of the Town of Shelter Island, New York)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

1. Summary of Significant Accounting Policies - continued

c. Measurement Focus and Basis of Accounting - continued

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the fund. Proceeds of general long-term debt are reported as other financing sources.

The modified accrual basis of accounting varies from accounting principles generally accepted in the United States of America (U.S. GAAP) primarily in that under U.S. GAAP:

- Financial statements are replaced with the basic financial statements, and include two additional statements, the statement of net position and the statement of activities, collectively referred to as the "government-wide" financial statements which are presented on the full accrual basis of accounting. Under the accrual basis, revenues and expenses are recognized when incurred regardless of when the actual cash receipt or disbursement occurred.
- Management's Discussion and Analysis (MD&A) is required as supplementary information that precedes the basic financial statements and is intended to provide an objective analysis of the government's financial activities, both on a current and long-term basis, based on current conditions.
- Fund-based financial statements must be reconciled to the "government-wide" financial statements.
- Capital assets, other than land, are depreciated and reported on the "government wide" statement of net position at net book value, and depreciation expense is allocated to the major functions on the statement of activities based on the use of the underlying assets.

d. Cash and Cash Equivalents, Restricted

Cash and cash equivalents consist of funds deposited in demand accounts and time deposit accounts

e. Prepays

Prepays represent payments made by the Community Preservation Fund for which benefits extend beyond year end. These payments represent costs applicable to future accounting periods and are recorded as prepaids in the fund financial statements. These items are reported as assets on the Balance Sheet using the consumption method. Under the consumption method, a current asset for the prepaid item is recorded at the time of the purchase and an expenditure is reported in the year the goods or services are consumed.

f. Real Estate Transfer Tax

During November 1998, the residents of the Town approved a 2% real estate transfer tax to fund the operations of the Community Preservation Fund. The transfer tax became effective April 1, 1999. Transfer tax receipts are used for the purchase and/or preservation of agricultural land, open space, parks, or historic preservation sites. In 2016, the residents of the Town approved an extension of the transfer tax through December 31, 2050, and the allowance of up to 20% of the annual fund to be used for water quality improvement projects. The tax applies to sales of unimproved real property in excess of \$100,000 and sales of improved real property in excess of \$250,000. Conveyance of real property for open space, parks, or historic preservation purposes to any not-for-profit, or tax-exempt organization operating for conservation, environmental or historic preservation purposes is exempt from this tax.

TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

(A Special Revenue Fund of the Town of Shelter Island, New York)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

1. Summary of Significant Accounting Policies - continued

g. Fund Statements

Fund statements report balances for governmental funds in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five fund balance classifications utilized by the Town are as follows; however, the Community Preservation Fund only utilizes nonspendable and restricted:

Nonspendable - Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of prepaids.

Restricted - Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, granters, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. The fund balance of the Community Preservation Fund is a restricted fund of the Town.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action such as legislation, resolution, or ordinance by the government's highest level of decision-making authority.

Assigned - Amounts that are constrained only by the government's intent to be used for a specified purpose but are not restricted or committed in any manner.

Unassigned - In a special revenue fund, the unassigned classification is used only to report a deficit fund balance resulting from the overspending of available resources.

h. Estimates

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

2. Deposits With Financial Institutions and Investments

The Town's investment practices are governed by state statutes and Town policy. Community Preservation Fund monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities.

a. Custodial Credit Risk

Concentration of Credit Risk - Credit risk can arise as a result of failure to adequately diversify investments. Concentration risk disclosure is required for a position of 5% or more in securities of a single user.

TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

(A Special Revenue Fund of the Town of Shelter Island, New York)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

2 Deposits With Financial Institutions and Investments - continued

a Custodial Credit Risk - continued

Custodial Credit Risk - Deposits/Investments - Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of failure of the counterpart, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Credit Risk - State and town law limit the investment to those authorized by State statutes. The investment policy and guidelines are designed to protect the principal by limiting credit risk. This is accomplished by ratings, collateral and diversification.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

- A Uncollateralized,
- B Collateralized by securities held by the pledging financial institution, or
- C Collateralized by securities held by the pledging financial institution's trust department or agent but not in the Town's name.

The Town's aggregate bank balances, including those of the Community Preservation Fund, were covered by FDIC insurance or fully collateralized securities and letters of credit pledged on the Town's behalf at year-end in the Town's name.

b External Investment Pool

The Town participates in the Cooperative Liquid Assets Securities System - New York (NYCLASS), a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 3-A and 5-G, §119-0, whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents. All NYCLASS investment and collateral policies are in accordance with General Municipal Law, Sections 10 and 11. Total investments of the cooperative as of December 31, 2021 are \$3,504,794,290 of which \$436,256,062 in Repurchase Agreements, \$1,883,285,728 in Treasury Bills, \$167,049,234 in U.S. Treasury Securities, and \$1,018,203,266 in collateralized bank deposits, with various interest rate and due dates.

The pool is not registered with the SEC and is overseen by an elected Governing Board. The Town's fair value of its position in the pool is the same as the value of pool shares held by the Town. The Town's investment in CLASS consists of repurchase agreements relating to Treasury obligations as well as U.S. Government Treasury Securities. The carrying amount held within the NYCLASS by the Community Preservation Fund at December 31, 2021 was \$5,906,232.

The above amounts represent the cost of the investment pool shares, and are considered to approximate fair value. The investment pool is categorically exempt from the New York State collateral requirements. Additional information concerning the cooperative is presented in the annual report of the New York Cooperative Liquid Assets Securities System (NYCLASS) and can be found on its website at www.newyorkclass.org.

3 Due From Other Governments

At December 31, 2021, the Community Preservation Fund was due \$1,111,641 from Suffolk County, related to unremitted real estate transfer taxes. The balance was subsequently collected in full. Therefore, no allowance against this amount is required.

TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

(A Special Revenue Fund of the Town of Shelter Island, New York)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

4. Interfund Transactions

Interfund activities at December 31, 2021, are as follows:

	Interfund Activities			
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Receivables</u>	<u>Payables</u>
Community Preservation Fund	\$ -	\$ -	\$ 97,694	\$2,548,655
Water Quality Improvement Project Fund	-	10,000	2,542,636	-
Town of Shelter Island - Highway Department	-	-	6,019	-
Town of Shelter Island - General Fund	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>97,694</u>
Total	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 2,646,349</u>	<u>\$ 2,646,349</u>

The \$10,000 transfer from the water quality project fund to the Town's General Fund was to provide funding for the water advisory committee for salt water intrusion.

5. Contingencies

The Community Preservation Fund financial information presented in the Town's December 31, 2021 audited financial statements may be different from these financial statements due to timing.

6. Commitments

In November of 2017 the Town Board passed a resolution granting rebates to homeowners who upgrade their septic systems or cesspools to approved nitrogen-reducing systems. These rebates are funded through the Community Preservation Fund Water Quality Improvement Project Fund. As of December 31, 2021, the Town board has awarded \$430,500 to residents, which remain unpaid. It is possible that residents will withdraw their application or fail to meet the criteria for a full rebate under the terms of the program.

7. Risks and Uncertainties

- a. Town Audit-As of September 15, 2022, the Town's December 31, 2021, audited financial statements have not been issued. The Town's management believes that any adjustment to the Town's financial statements will not have a material effect, if any, on the Community Preservation Fund's account balances as of December 31, 2021, and for the year then ended.
- b. Environmental Risks - The Community Preservation Fund is subject to federal, state, and local regulations relating to the disposal of certain hazardous materials. At September 15, 2022, management is not aware of any potential hazardous materials or risks related to properties owned.

8. Prior Period Adjustment

A prior period adjustment was required to increase the opening fund balance by \$13,300 due to the over accrual of expenses in the prior year financial statement. The accruals related to the 2019 audit fee \$3,300 and a reimbursement due to the Town's General Fund of \$10,000. Neither of these transactions met the criteria for recognition in the prior year financial statement using the current financial resources measurement focus under the modified accrual basis of accounting. This adjustment aligns the ending fund balances of the Fund at December 31, 2020 with those reported in the Town's financial statements.

TOWN OF SHELTER ISLAND COMMUNITY PRESERVATION FUND

(A Special Revenue Fund of the Town of Shelter Island, New York)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

9 Subsequent Events

The Community Preservation Fund has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment or disclosure in the financial statements, except for the following:

- On July 26, 2022, a public hearing was held in connection with the potential acquisition, with the County of Suffolk as a 50% partner, of 20.1 acres between South Menantic Road and West Neck Creek, Shelter Island, NY, known collectively as the "White Property". The total purchase price of the subject parcels is \$11.1 million, and the Town's contribution will be \$5.55 million, to be paid with Community Preservation Funds. The Town Board determined that this acquisition is the best alternative for protection of community character and approved the Town Supervisor to sign and execute any and all documents in connection with the White Property. As of the audit opinion date this sale has not consummated.
- Subsequent to December 31, 2021 and through the audit opinion date the Community Preservation Fund has issued \$41,625 of septic system rebates authorized in 2021 and prior years, see Note 6 for more details on this program.

INDEPENDENT AUDITOR'S 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 Honorable Supervisor and Town Board
Town of Shelter Island
Shelter Island, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Shelter Island Community Preservation Fund (Community Preservation Fund), as of and for the year ended December 31, 2021, and the related notes to the financial statements and have issued our report thereon dated September 15, 2022. As more fully described in Note 1 to the financial statements the Community Preservation Fund has prepared their financial statements using the current financial resources focus and follows the modified accrual basis of accounting used to prepare the Annual Financial Report Update Document, required to be filed by the Town with the Office of the New York State Comptroller. This is a basis of accounting other than accounting principles generally accepted for governmental entities in the United States.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Community Preservation Fund's internal control over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Community Preservation Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Community Preservation Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 and significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Community Preservation Fund'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Craig Fitzsimmons & Meyer, LLP". The signature is written in a cursive, flowing style.

Smithtown, NY
September 15, 2022

September 15, 2022

The Honorable Supervisor and Town Board
Town of Shelter Island Community Preservation Fund
Shelter Island, New York

AU-265 MANAGEMENT RECOMMENDATIONS LETTER

In planning and performing our audit of the Town of Shelter Island Community Preservation Fund (Community Preservation Fund) as of and for the year ended December 31, 2021, in accordance with audit standards generally accepted in United States of America, we considered the Community Preservation Fund's internal controls over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the Community Preservation Fund's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Community Preservation Fund's internal controls.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A control deficiency may be either a deficiency in design or a deficiency in operation. A deficiency in design exists when a control necessary to meet the control objectives is missing or an existing control is not properly designed so that even if the control operates as designed the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control properly.

A *significant deficiency* is a deficiency or 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.

A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

During our audit, we noted issues that present an opportunity to strengthen controls, better comply with laws and regulations, or meet organizational objectives. The following paragraphs summarize our observations and our suggestion concerning this matter.

Tracking & Reporting the Outstanding Septic Rebates For the Water Quality Improvement Fund (WQIF)

Our audit observed that the tracking system for outstanding Septic Rebates is not being maintained comprehensively and organized. As a result, although the details of outstanding and paid rebates were listed in a separate excel spreadsheet, it was not easy to deduce what the actual amount of outstanding Septic Rebates was at year-end December 31, 2021.

We recommend the Committee create a system that will integrate the tracking of Septic Rebates into the Williamson system utilized by the Town by establishing a line item budget for each recipient by name and dollar amount of the award. This may allow for a more accurate and comprehensive system for determining the Town's commitments related to the Septic Rebate Program at any given time.

Managing Cash Balances

During our audit, we noticed that the Community Preservation Fund's interest-bearing checking account totaled over 6.8 million dollars and earned interest at a rate of 0.01%. The Community Preservation Fund also participated in the NYCLASS; for the month of December 2021, the NYCLASS account had a yield of 0.0351%. According to the Town's Investment Policy, an objective is for the Town to "obtain a reasonable rate of return (yield)" on money and financial resources. Therefore, we recommend the Community Preservation Fund consider transferring idle cash in the checking account to the NYCLASS account or seek other alternative ways to earn higher interest rates on its cash reserves. Again, the Community Preservation Fund should refer to the investment policy for alternative investments that are allowable and available.

Consider Segregating the Cash Balance of the Water Quality Improvement Project (WQI) Fund

Although it is not required by law, management may find that segregating the cash balances of the WQI in a separate bank account will enhance the tracking of activity and ease the reporting of the net cash available for water quality initiatives. By having different bank accounts and ledger codes for the two programs, the business office will also be able to provide the advisory board and town councilors with a more accurate and timely understanding of funding available for land purchases and water quality projects.

2020 Financial Statements for the Fund

During our audit, we noted that the issued financial statements for the Community Preservation Fund did not tie into the financial statements issued by the Town of Shelter Island. After further discussions and analysis, it was discovered that the previous auditor incorrectly booked obligations not applicable under the current resources model followed in fund accounting. As a result, we have disclosed the prior year's financial statement differences in the 2021 notes to the financial statements.

We recommend that the Community Preservation Fund delegate personnel with the required Skills, Knowledge or Experience to review and accept responsibility for the Community Preservation Fund's financial statements. This includes agreeing the financial statement amounts to the internal trial balances of the Town.

Concluding Remarks

The conditions noted above were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2021 financial statements. This report does not affect our report dated September 15, 2022. We have not considered your internal controls since the date of our report.

Additionally, it is important to once again note that our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. Also, of importance to note is that because of the inherent limitations in any internal control framework, errors or fraud could occur and not be detected by such controls.

This report is considered an AU Section 265 communication. It is intended solely for the use of Town Board, management, others within the Community Preservation Fund and the Office of the New York State Comptroller. It is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,



Craig, Fitzsimmons & Meyer, LLP
Robert R. Craig, Engagement Partner

September 15, 2022

The Honorable Supervisor and Town Board
Town of Shelter Island Community Preservation Fund
Shelter Island, New York

AU-C SECTION 260 THE AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the Town of Shelter Island Community Preservation Fund (Community Preservation Fund) for the year ended December 31, 2021, and have issued our report thereon dated September 15, 2022. 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 to you in our audit engagement letter to you dated August 8, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Community Preservation Fund are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Community Preservation Fund 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.

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 estimate affecting the Community Preservation Fund's financial statements was:

Management's estimate of the potential outstanding grant obligation to residents for rebates related to upgrading septic systems and cesspools. We evaluated the key factors and assumptions used to develop the potential obligation under this program in determining that it was not to be reported as an obligation at December 31, 2021 and the disclosures related to this program were reasonable in relation to the financial statements taken as a whole.

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

The disclosure of subsequent events in Note 9 to the financial statements outlines the Community Preservation Fund's plan to enter into a land acquisition with Suffolk County of \$11.1 million with the Community Preservation Fund contributing 50% or \$5.55 million toward this purchase.

The financial statement disclosures are neutral, consistent, and clear.

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 known and likely 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. We have attached our proposed adjusting journal entries to this letter. Management has reviewed all the adjusting journal entries we proposed and is in agreement with the presentation of these adjustments in the audited financial statements. There are no known passed adjustments.

Disagreements with Management

For purposes of this letter, 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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

Councilwoman Amber Brach-Williams, CPA supported by the Town's Contract Accountant Jennifer Ditta, CPA of Cullen and Danowski, CPAs collectively serve as the management level persons who possesses the skills, knowledge and experience to accept responsibility for the financial statements. Supervisor Siller and Councilwoman Brach-Williams have provided us with certain representations related to the financial statements, the information provided to us and the Community Preservation Fund's operations in a letter dated September 15, 2022. A copy of this letter should be kept on file at the Community Preservation Fund's offices and is available for your review and inspection.

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 Community Preservation Fund's financial statements or a determination of the type of auditor's 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 each year prior to retention as the Community Preservation Fund's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

As outlined previously in planning and performing our audit of the financial statements of the Community Preservation Fund for the year ended December 31, 2021, we considered your internal control structures in order to help us determine the nature, timing and extent of our audit procedures. These procedures were designed to allow us to formulate an expression of our audit opinion as to the fairness of your financial statement presentation and disclosures in accordance with the modified accrual basis of accounting. Our work in this regard was not designed for, nor intended to provide you with assurances on your internal controls. However, we provided certain observations and recommendations in a separate letter we believe will help the Community Preservation Fund improve controls and better achieve organizational objectives.

Management requested us to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of these services is typical in government organizations of your size and is a service that we have historically provided. Typically, this would be considered a material weakness; however, because of the skills, knowledge and experience of Councilwoman Amber Brach-Williams, CPA and the Town's Contract Accountant Jennifer Ditta, CPA of Cullen and Danowski, CPAs and the fact that they have reviewed the statements with governing body, have taken responsibility for their presentation, we believe the Community Preservation Fund has effectively met its responsibilities to maintain controls over financial statement preparation.

Closing and Restriction on Use

We would like to take this opportunity to re-emphasize the conditions noted herein that were considered in the nature, timing and extent of our audit testing and would not necessarily disclose all matters involving internal control that might be control deficiencies. Accordingly, our work would not necessarily disclose all significant deficiencies that are considered material weaknesses as defined by the AICPA. Also, of significance to note is that any internal control system is subject to inherent limitations in its design and operation, this means that non-compliance, errors or frauds could occur and not be detected by such controls.

This report is considered an AU-C Section 260 communication; it is intended solely for the use of the Town Board, and management, others within the Community Preservation Fund and the Office of the New York State Comptroller. It is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Craig, Fitzsimmons & Meyer, LLP". The signature is written in black ink and is positioned above the printed name of the firm.

Craig, Fitzsimmons & Meyer, LLP
Robert R. Craig, Engagement Partner

Client: **TOSIPF - Town of Shelter Island Community Preservation Fund**
Engagement: **2021 - Town of Shelter Island Community Preservation Fund**
Period Ending: **12/31/2021**
Trial Balance: **TB**
Workpaper: **3700.05 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
To record AR at year end for pridwin hotel. Take out of cash (Not received until January 2022)				
CP.1035.420	DUE FROM OTHER FUNDS		97,694.00	
CP.1010.230	COMM. PRES. CHECKING			97,694.00
Total			97,694.00	97,694.00
Adjusting Journal Entries JE # 2				
To record check voided and re issued in January 2022				
CP.1010.230	COMM. PRES. CHECKING		5,950.00	
CP.2000.600	ACCOUNTS PAYABLE			5,950.00
Total			5,950.00	5,950.00
Adjusting Journal Entries JE # 3				
To record Trail maintenance December 2021 billed by Shelter island Highway Dept in 2022				
CP.5340.8803.403	STEWARDSHIP - TRAIL & TREE MAINTENANCE	7352v01	6,019.00	
CP.630.1	Due to Other Funds - Highway			6,019.00
Total			6,019.00	6,019.00
Adjusting Journal Entries JE # 4				
To record adjustment to due to WQIF for transfer to reimburse general fund for Water Quality Testing Resolution No. 272 - 2019 made in June of 2021 charged to CPF in error.				
CP.3020.879	RESTRICTED: CAPITAL WQIF		10,000.00	
CP.1035.400	INTERFUND RECEIVABLE: WQIF			10,000.00
Total			10,000.00	10,000.00
Adjusting Journal Entries JE # 5				
To record due to WQIF for FS presentation purposes as a due to / due from.				
CP.3020.878	RESTRICTED: CAPITAL		2,542,636.00	
CP.630.2	Due to Other Funds - WQIF			2,542,636.00
Total			2,542,636.00	2,542,636.00
Total Adjusting Journal Entries			2,662,299.00	2,662,299.00
Total All Journal Entries			2,662,299.00	2,662,299.00