



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements and Federal Single Audit  
Report**

**King County Ferry District**

**For the period January 1, 2013 through December 31, 2013**

**Published September 18, 2014**

**Report No. 1012613**





**Washington State Auditor**  
**Troy Kelley**

September 18, 2014

Board of Supervisors  
King County Ferry District  
Seattle, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the King County Ferry District's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR

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# Federal Summary

## King County Ferry District January 1, 2013 through December 31, 2013

The results of our audit of the King County Ferry District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the basic financial statements.

#### ***Internal Control Over Financial Reporting:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants
20.525	Federal Transit Cluster - Federal Transit - State of Good Repair Grants Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

# **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***

**King County Ferry District  
January 1, 2013 through December 31, 2013**

Board of Supervisors  
King County Ferry District  
Seattle, Washington

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 King County Ferry District, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 2, 2014.

## ***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 opinion 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.

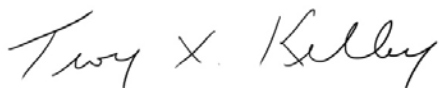
## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's 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 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. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

September 2, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**King County Ferry District  
January 1, 2013 through December 31, 2013**

Board of Supervisors  
King County Ferry District  
Seattle, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of the King County Ferry District, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

September 2, 2014

# **Independent Auditor's Report on Financial Statements**

## **King County Ferry District January 1, 2013 through December 31, 2013**

Board of Supervisors  
King County Ferry District  
Seattle, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the King County Ferry District, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

#### ***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.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion 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 auditor's 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the King County Ferry District, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

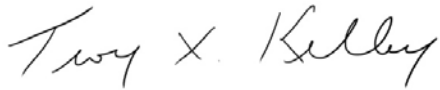
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We 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 responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2014 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 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 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

September 2, 2014

## **Financial Section**

### **King County Ferry District January 1, 2013 through December 31, 2013**

#### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013

#### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

#### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the King County Ferry District (the District) for the fiscal year ended December 31, 2013. As this information is presented in summary form, it should be read in conjunction with the financial statements and footnotes as a whole.

The District was established in April 2007 to provide passenger-only ferry services to King County residents. The District's personnel currently consist solely of its governing body, the Board of Supervisors. It is comprised of all nine members of the King County Council. To provide ferry services, the District contracts with King County, utilizing King County's technical expertise and personnel, to manage the existing routes and develop future routes in the Puget Sound area.

### Financial Highlights

- As of December 31, 2013, the District's net position is \$25.43 million.
- Total net position decreased by \$866,204 as compared to fiscal year ended December 31, 2012.
- Passenger fare revenue increased to \$1.63 million in 2013 from \$1.42 million in 2012.

### Overview of the Financial Statements

The District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, as clarified by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements amend GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and other pronouncements. The District is a stand-alone enterprise fund, and the financial statements are presented using the economic resource measurement focus and accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recognized in the period in which they are incurred.

The Statement of Net Position presents information about all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position. When net position is compared for several years, increases and decreases may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position present information on how the District's net position changed during the year. All changes in net position are reported as soon as the event occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows presents information on the District's cash receipts, cash payments, and changes in cash during the year.

The basic financial statements can be found following this Management's Discussion and Analysis.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Notes to the financial statements can be found following the basic financial statements.

## Financial Analysis

### **Condensed Statement of Net Position**

	2013	2012
Current assets	\$ 16,902,952	\$ 21,083,291
Capital assets	9,735,375	7,568,263
Total assets	26,638,327	28,651,554
Deferred outflows of resources		
Current liabilities	1,211,010	2,358,033
Total liabilities	1,211,010	2,358,033
Deferred inflows of resources		
Net investment in capital assets	9,735,375	7,568,263
Unrestricted	15,691,942	18,725,258
Total net position	\$ 25,427,317	\$ 26,293,521

The Statement of Net Position represents assets, liabilities and net position. The current assets were \$16.9 million at December 31, 2013, including cash of \$14.15 million, receivables of \$2.62 million and prepaid expenses of \$0.13 million. Capital assets increased by \$2.17 million due to the capital contribution of a \$1.8 million vessel, and an increase in capital projects expenditures primarily for construction of ferry boat and maintenance barge. The total liabilities of \$1.21 million were current payables to vendors, of which \$1.17 million was payable to King County Marine Division. The amount of net position is the total assets plus deferred outflows of resources minus liabilities plus deferred inflows of resources and over time may serve as a useful indicator of the District's financial position. The total net position was \$25.43 million, including investment in capital assets of \$9.74 million and unrestricted net position of \$15.69 million for the District's operations. Total net position decreased by \$0.87 million compared to prior year. The District's financial position remains stable.



**Condensed Statement of Revenues,  
Expenses and Changes in Fund Net Position**

	2013	2012
Operating revenues		
Passenger fares	\$ 1,625,208	\$ 1,420,638
Other operating revenue	488,123	
Non-operating revenues, net		
Taxes	1,176,665	1,175,265
Other non-operating revenues	1,056,503	3,769,810
Total revenues	4,346,499	6,365,713
Operating expenses		
Administrative and professional services	279,103	800,701
Materials and supplies	558,311	698,621
Casualty and liability costs	302,353	392,170
Purchased transportation services	2,828,696	2,628,623
Maintenance	1,046,592	492,380
Miscellaneous expenses	76,755	68,154
Lease and rentals	1,539,376	1,618,192
Depreciation and amortization	381,517	182,103
Total expenses	7,012,703	6,880,944
(Loss) before capital contribution	(2,666,204)	(515,231)
Capital contribution	1,800,000	-
Total changes in net position	(866,204)	(515,231)
Net position, beginning of year	26,293,521	26,808,752
Net position, end of year	\$ 25,427,317	\$ 26,293,521

Passenger fare revenues increased by \$0.2 million from prior year to \$1.63 million. In addition, the District received \$0.49 million of cost reimbursements for extending the operations of the Water Taxi and its related commuter shuttle service during the winter months. Non-operating revenues decreased by \$2.02 million, primarily due to a reduction in grant revenues. Total expenses increased by \$0.13 million from the prior year. The changes in the District's net position resulted from the difference between total revenues and total expenses. The District's total net position decreased by \$0.87 million and overall, the District had a consistent financial operation from 2012 to 2013.

### Capital Assets

The District's capital assets, net of accumulated depreciation as of December 31, 2013, amounted to \$9.74 million, increased by \$2.17 million from the previous year as a result of the capital contribution of a \$1.8 million vessel and capital construction projects. These capital assets include vehicles and equipment, vessel, leasehold improvements and construction in progress. For further information regarding capital assets, see Note 5 to the financial statements.

	Balance 12/31/2013	Balance 12/31/2012
Vehicles, machinery and equipment	\$123,995	\$123,995
Leasehold improvements	1,467,221	1,467,221
Terminals, barges, and facilities	5,894,582	-
Vessels	1,800,000	-
Construction in progress	1,215,631	6,361,584
Less: Accumulated depreciation	(766,054)	(384,537)
Total capital assets, net	<u>\$9,735,375</u>	<u>\$7,568,263</u>

### Economic Factors and Future Outlook

The District's Board of Supervisors desires to maintain the 2014 property tax levy at the 2013 level. The Board believes that the proposed property tax levy will be sufficient for the District to maintain its current level of operation during 2014. The District will continue to offer the current services on the existing two routes, Vashon Island and West Seattle to Downtown Seattle via leased vessels. The District plans to use grant funds for design and construction of two vessels which it will own. Another capital project will involve completion of construction and installation of a maintenance moorage barge to provide for efficient maintenance of vessels and promote service reliability.

The 2014 budget is summarized below:

	2014
Passenger fare revenues	\$1,967,210
Property taxes	1,190,252
Grants	14,763,452
Other revenues	85,000
Total budgeted revenues	<u>\$18,005,914</u>
Operating expenses	6,642,740
Capital project expenses	<u>\$18,438,382</u>
Total budgeted expenses	<u>\$25,081,122</u>

## **Request for Information**

This financial report is designed to provide a general overview of the King County Ferry District's finances for all those with an interest in the District's finances. Questions concerning any information provided in this report should be addressed to: King County Ferry District, 516 3<sup>rd</sup> Ave, Room 1200, Seattle, Washington 98104.

**KING COUNTY FERRY DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

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**ASSETS**

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**CURRENT ASSETS**

Cash (Note 2)	\$ 14,154,591
Taxes receivable	30,480
Interest receivable	11,361
Due from other governments	2,572,761
Prepaid	133,759

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Total current assets	16,902,952
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**NON-CURRENT ASSETS**

Capital assets not being depreciated (Note 5)	
Construction in progress	1,215,631
Capital Assets being depreciated	
Vehicles, machinery and equipment	123,995
Leasehold improvements	1,467,221
Vessels	1,800,000
Terminals, barges, and facilities	5,894,582
Less: accumulated depreciation	(766,054)

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Total net capital assets	9,735,375
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Total non-current assets	9,735,375
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<b>TOTAL ASSETS</b>	<b>\$ 26,638,327</b>
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**DEFERRED OUTFLOWS OF RESOURCES**

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**LIABILITIES****CURRENT LIABILITIES**

Accounts payable	\$ 1,211,010
Total current liabilities	1,211,010

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<b>TOTAL LIABILITIES</b>	<b>1,211,010</b>
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**DEFERRED INFLOWS OF RESOURCES**

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**NET POSITION**

Net investment in capital assets	9,735,375
Unrestricted	15,691,942

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<b>TOTAL NET POSITION</b>	<b>25,427,317</b>
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**See Notes to Financial Statements**

**KING COUNTY FERRY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET**  
**POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**OPERATING REVENUES**

Passenger fares	1,625,208
Mitigation revenue	488,123
<b>Total Operating Revenues</b>	<b>2,113,331</b>

**OPERATING EXPENSES**

Administrative and professional services	279,103
Materials and supplies	558,311
Casualty and liability costs	302,353
Purchased transportation services	2,828,696
Maintenance	1,046,592
Miscellaneous expenses	76,755
Leases and rentals (Note 6)	1,539,376
Depreciation and amortization	381,517
<b>Total Operating Expenses</b>	<b>7,012,703</b>
<b>Operating income (loss)</b>	<b>(4,899,372)</b>

**NON - OPERATING REVENUES (EXPENSES)**

Investment income	6,448
Taxes levied	1,176,665
Grants and contributions	1,018,579
Miscellaneous income	31,476
<b>Total non-operating revenues (expenses)</b>	<b>2,233,168</b>
Income (loss) before capital contribution	(2,666,204)
Capital contribution	1,800,000
<b>(DECREASE) IN NET POSITION</b>	<b>(866,204)</b>
<b>NET POSITION - BEGINNING</b>	<b>26,293,521</b>
<b>NET POSITION - ENDING</b>	<b>25,427,317</b>

**See Notes to Financial Statements**

# KING COUNTY FERRY DISTRICT

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED DECEMBER 31, 2013

#### CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from passenger fares	\$ 1,625,208
Receipts from services	296,288
Payments to suppliers and for claims	(7,911,968)
Net cash (used) by operating activities	(5,990,472)

#### CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Taxes received	1,189,082
Federal grants proceeds	2,220,545
Insurance claim revenue	31,476
Net cash provided by non-capital financing activities	3,441,103

#### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital expenditures	(748,629)
Net cash (used) by capital and related financing activities	(748,629)

#### CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	4,606
Net cash provided by investing activities	4,606

**NET (DECREASE) IN CASH** (3,293,392)

**CASH, BEGINNING OF THE YEAR** 17,447,983

**CASH, END OF THE YEAR** \$ 14,154,591

#### Reconciliation of Operating Loss to Net Cash Flows Provided (Used) By Operating Activities

Operating (Loss)	\$ (4,899,372)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	381,517
Changes in assets and liabilities	
Increase in prepaid	(133,759)
(Decrease) in accounts payable	(1,147,023)
Increase in mitigation revenue receivable	(191,835)
Net cash (used by) operating activities	\$ (5,990,472)

**Noncash receipt of capital contribution** \$ 1,800,000

**See Notes to Financial Statements**

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As authorized under the Revised Code of Washington (RCW) 36.54.110, King County Ferry District (the District) was established in April 2007 to expand transportation options for King County residents by providing passenger-only ferry and connecting shuttle services. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The District has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Reporting Entity**

The District is a special purpose government which provides transportation services to the general public and is supported primarily through user charges, tax revenues and grants. As a municipal corporation and independent taxing authority, the District is eligible to receive federal, state, and local funds for carrying out its mission. The Board of Supervisors is the primary governing body of the District. It is comprised of all nine members of the King County Council.

All activities for which the District is financially accountable have been incorporated to form the reporting entity. The District has no component units that are required to be included in its financial statements. King County reports the District as a component unit in its financial statements. However, the District, as a separate legal entity, has legal and administrative authority over all its resources.

**Basis of Accounting and Reporting**

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Budgeting, Accounting and Reporting System for Transit Districts* in the State of Washington.

The District is a single enterprise fund which is accounted for on an economic resources measurement focus. This means that all assets, deferred outflows of resources, liabilities (whether current or noncurrent) and deferred inflows of resources associated with its activities are included on the statement of net position. The reported total net position is segregated into invested in capital assets, net of related debt, restricted and unrestricted net assets. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The District discloses changes in cash

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

flows by a separate statement that presents its operating, noncapital financing, capital and related financing, and investing activities.

The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Property taxes are recognized as revenues in the year for which they are levied. Capital asset purchases are capitalized.

The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are passenger fare revenues. The operating expenses include labor, fringe benefits, professional services, materials and supplies, purchased transportation services, leases, and other expenses related to delivery of ferry services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

**Cash**

Cash consists primarily of pooled investments in the King County Investment Pool (Pool). The King County Treasurer acts as custodian for the District's cash. The Pool functions as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. Interest earnings distributed to the District are used for the District's operations.

The balance in the Pool is reported at fair value. Unrealized gains and losses due to changes in the fair value are recognized in the statement of revenues, expenses and changes in net position at year-end for financial reporting purposes.

The amounts reported as cash also include balances maintained with a commercial bank which is covered by federal deposit insurance (FDIC) to the extent allowed by FDIC regulations.



**KING COUNTY FERRY DISTRICT  
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**Receivables**

Taxes receivable consists of uncollected property taxes levied for the current year, including related interest and penalties. Interest receivable consists of amounts earned on cash investments.

The District determined that no allowance for uncollectible receivables was necessary as of December 31, 2013.

**Amounts Due to and From Other Governments**

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services. All unbilled service receivables are recorded at year-end.

**Capital Assets and Depreciation** – See Note 5, *Capital Assets*.

**Deferred Outflows/Inflows of Resources**

The District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and also in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements amend GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and other pronouncements.

As of December 31, 2013, the District had no deferred outflows or inflows of resources.

**Net Position**

Net position is comprised of the various net earnings from operating revenues, non-operating revenues, expenses and capital contributions. Net position is classified in the following three components:

*Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction or improvement of those assets. As of December 31, 2013, the District had no capital related debt and total investment in capital assets was \$9,735,375.

*Restricted* – This component of net position consists of external constraints imposed by creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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constitutional provisions or enabling legislation, that restrict the use of net assets. The District had no restricted net position as of December 31, 2013.

*Unrestricted* – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”. As of December 31, 2013, the District had total unrestricted net position \$15,691,942.

**Income Tax**

As a public governmental corporation, the District is exempt from federal income taxes.

**Environmental Remediation Obligations**

Environmental remediation activities are reviewed routinely to determine if an obligating event, as defined by GASB statement No. 49, *Accounting for and Financial Reporting for Pollution Remediation Obligations*, has occurred, when the liability should be accrued and whether the cost should be expensed or capitalized. The District had no environmental remediation obligations as of December 31, 2013.

**Use of Estimates**

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

**NOTE 2 - CASH**

In accordance with State law, the District’s governing body has entered into a formal interlocal agreement with the District’s *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (the Pool).

The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. All investments are subject to written policies and procedures adopted by the EFC.

**KING COUNTY FERRY DISTRICT  
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As of December 31, 2013, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$14,154,460	1.23 years

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2013, the Pool's average duration was 1.23 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains or losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

*Credit Risk* is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2013, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

In addition to the Pool, the District has two deposit accounts at US Bank, which are covered by federal deposit insurance (FDIC).

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

Amounts due to the District as of December 31, 2013 were detailed as follows:

Grants receivable	\$ 355,926
Due from Washington State DOT	191,835
Cash advanced to King County Marine Division	<u>2,025,000</u>
Total Receivables	<u>\$2,572,761</u>

The District determined that no allowance for uncollectible amounts was necessary as of December 31, 2013.

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 4 - PROPERTY TAXATION**

Under legislative authority to counties provided by the state in 2003, local ferry districts receive funding for operations through a property tax levy. The District was authorized to levy property taxes beginning January 1, 2008.

Property taxes levied in specific amounts are subject to an approval by the District's Board of Supervisors. The King County Assessor determines the tax levied against each property in each taxing district on a tax roll and the tax roll is delivered to the King County Treasury Operation Section Manager who is responsible for billing and collecting taxes due for each account.

All taxes are due and payable on April 30 of each year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year. All taxes collected are distributed to the District and kept in the custody of the King County Treasury Division.

Property taxes are recognized as revenue in the year for which they are levied. Total property tax revenue was \$1,176,665 in 2013.

**NOTE 5 - CAPITAL ASSETS**

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Assets with a useful life in excess of one year are capitalized if the individual cost is at least \$5,000. Additions and improvements with a value in excess of \$5,000 and a useful life of more than one year are capitalized. Repairs and maintenance that do not add to the value of the assets or materially extend their lives are expensed as incurred.

Capital assets are recorded at historical cost. Donated capital assets are stated at the fair market value on the date of donation.

The District has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the District has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

Construction of the MD Moorage Maintenance Barge was substantially completed and it was placed in service on May 1, 2013. Total costs of \$5,894,582 were reclassified from Construction in Progress and capitalized in the statement of net position.

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

In 2013, Ferry district also acquired a new passenger-only vessel, Spirit of Kingston, from Port of Kingston at no cost. The Spirit of Kingston was a surplus to Port of Kingston's operation. Federal Transit Administration which funded the acquisition of the Spirit of Kingston desired to keep the vessel in public transportation services. Its value was estimated at \$1,800,000. Ferry districted recognized \$1,800,000 capital contribution accordingly.

During 2013, the District incurred no interest costs for funds borrowed to finance the construction of capital assets.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method (without salvage value) with useful lives as follows:

<b><u>Description</u></b>	<b><u>Estimated Useful Life</u></b>
Terminals, barges, and facilities	30 years
Passenger only vessels	25 years
Buses	12 years
Cars, vans and trucks	5 years
Heavy equipment	7 years
Office and other equipment	3 years
Telecommunication equipment	6 years
Leasehold improvements	10 to 30 years

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

Capital assets activity for the year ended December 31, 2013 was as follows:

	Balance 12/31/2012	Increases	Decreases	Balance 12/31/2013
<b>Capital assets not being depreciated:</b>				
Construction in progress	\$ 6,361,584	\$ 748,629	(5,894,582)	\$ 7,110,213
<b>Subtotal</b>	6,361,584	748,629	(5,894,582)	7,110,213
<b>Capital assets, being depreciated:</b>				
Vehicles, machinery and equipment	123,995			123,995
Leasehold improvements	1,467,221			1,467,221
Terminals, barges, and facilities		5,894,582		5,894,582
Vessel		1,800,000		1,800,000
<b>Subtotal</b>	1,591,216	7,694,582		9,285,798
<b>Less accumulated depreciation for:</b>				
Vehicles, machinery and equipment	(91,093)	(28,804)		(119,897)
Lease improvements	(293,444)	(146,722)		(440,166)
Terminals, barges, and facilities		(130,991)		(130,991)
Vessel		(75,000)		(75,000)
<b>Subtotal</b>	(384,537)	(381,517)		(766,054)
<b>Total capital assets, net of accumulated depreciation</b>	<b>\$7,568,263</b>	<b>\$8,061,694</b>	<b>(5,894,582)</b>	<b>\$ 9,735,375</b>

**Construction Commitments**

In 2013, the District continued several capital projects, including Interim Moorage Facility, Seacrest Dock, Seattle Terminal (Pier 50) and Vashon Terminal projects.

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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At year-end the District's commitments with contractors were as follows:

Project	Spent to Date	Remaining Commitment
MD Pier 50 Terminal Improvements (Seattle Interim)	\$ 417,997	\$ 421,002
Seattle Ferry Terminal	28,850	3,601,150
MD Vessel Acquisition 1	281,238	12,545,822
MD Seacrest Terminal Improvements	1,920,327	5,375
MD Vashon Terminal Improvements	420,030	370,968
MD Moorage Maintenance Barge	5,894,582	105,417

Remaining future expenditures relating to the substantially completed MD Moorage Maintenance Barge project will be accounted for in accordance to the District's capitalization policy.

The Seacrest Dock is owned by the City of Seattle. The District entered into an agreement with the City for the long-term use of the Seacrest Dock. The agreement commenced on November 1, 2009 for five years with an option to renew up to five years. In lieu of payment for a fee for the use of the Dock, the District constructed improvements at the Seacrest Dock, accounted for as leasehold improvements.

The Seattle and Vashon Terminals are owned by the Washington State Department of Transportation, Ferries Division (WSF). See details in Note 6 below.

Total depreciation expense for all depreciable assets was \$381,517 in 2013.

**NOTE 6 - LEASES**

The total lease expenses incurred in 2013 was \$1,539,376 as follows:

Revenue Vehicles (Vessels)	\$ 816,312
Service Vehicles (Shuttle)	649,520
Stations and Terminals	30,421
Other Miscellaneous Leases	<u>43,123</u>
Total	\$1,539,376

*Revenue Vehicles* - The District leases two vessels, Melissa Ann and Rachel Marie, from Four Seasons Marine Services. The lease of Melissa Ann initially started on August 1, 2009 and ended on March 31, 2012. The lease rate was \$35,835 per month. The District has extended the lease to September, 2015

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

with a reduced monthly rate of \$32,000. The lease of Rachel Marie initially started on February 1, 2010 and ended on December 31, 2012. The lease rate is \$32,000 per month. This lease also has been extended to December 31, 2013 at the same monthly rate.

*Service Vehicles* - King County Transit provides shuttle bus services for the District. The shuttle bus routes that are for the District are part of the agreement between King County Transit and Hopelink. King County Transit contracts with Hopelink for all the DART shuttle bus services for King County Transit. King County Transit bills the District on a quarterly basis for the District's portion of shuttle bus costs plus allocated Transit's overhead.

*Stations and Terminals* - The District entered into an agreement with the City of Seattle for the long-term use of the Seacrest Dock. The agreement commenced on November 1, 2009 for five years with an option to renew up to five years. In lieu of payment for a fee for the use of the Dock, the District constructed improvements at the Seacrest Dock, accounted for as leasehold improvements.

In 2011, the District finalized its contract agreement with the Washington State Department of Transportation Ferries Division for the long-term use of the Seattle Terminal and Vashon Terminal. The term of the contract is 8 years, commencing on July 1, 2011 and expiring on June 30, 2019. The annual license fee is \$57,000, which will be adjusted by consumer price index (CPI). At the completion of the contract, the payment for use of these two terminals was retroactive to September 26, 2009.

Future minimum lease payments for these leases:

2014	\$427,482
2015	440,773
2016	64,091
2017	65,437
2018	66,811
2019	\$ 33,753

**NOTE 7 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, etc. The District manages the risks with assistance from King County Risk Management Office in order to reduce the exposure from liability and accidental loss of property and human resources. Insurance procured from insurance companies by the Risk Management Office are reimbursed by the District. The District has the following coverages:



**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

- (1) Public officials liability, general liability, employment practices and auto liability insurance for the Board of Supervisors for the District through Enduris, formerly the Washington Governmental Entity Pool;
- (2) Marine general liability with a limit of \$1,000,000 per occurrence and a deductible of \$10,000;
- (3) Hull and machinery (property) coverage up to \$2,150,000 for Melissa Ann, \$1,900,000 for Rachel Marie, \$2,000,000 for Spirit of Kingston and \$4,000,000 for Maintenance Barge with a deductible of \$50,000 for each per occurrence;
- (4) Protection and indemnity liability coverage up to \$1,000,000 for each vessel (or Maintenance Barge) per occurrence;
- (5) Excess liability coverage that provides \$49,000,000 in limits above a \$1,000,000 per occurrence self-insured retention for its general liability, protection and indemnity liability and maritime employer's liability;
- (6) Pollution liability up to \$5,000,000 each incident;
- (7) Mortgagee's interest (innocent owner's interest) in the amount of the hull limit on the Melissa Ann and Rachel Marie as required by the lease.

Claims against the District in 2013 did not exceed insurance coverage.

**NOTE 8 - RELATED PARTY**

*Inter-local Government Agreements* – Since April 2008, the District has entered into an agreement with King County for managing operations of the passenger-only ferry services, the Vashon Passenger Ferry and West Seattle Water Taxi services. The District pays the County for all actual incurred costs for providing the services under this agreement such as direct labor, employment benefits, materials and supplies, subcontractors and capital acquisitions as well as administrative overhead costs for the services provided by County employees to the District. The County billed \$6,982,536 in total to the District in 2013 and \$1,174,847 was outstanding at December 31, 2013. In February 2010, the District's Board approved \$2,025,000 advance payment to the County and after offsetting this cash advance, the net receivable was \$850,153.

**NOTE 9 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions.

**KING COUNTY FERRY DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor			Current Year Expenditures		
Pass- Through Grantor	Federal CFDA Number	Pass through Number	From Pass-Through Awards	From direct Awards	Total Expenditures
Program Title					
<b>Department of Transportation Federal Transit Administration (FTA)</b>					
<i>King County Department of Transportation</i>					
Federal Transit Capital Investment Grants	20.500	WA030135	4,146		4,146
Federal Transit Capital Investment Grants	20.500	WA050060		246,524	246,524
Federal Transit Capital Investment Grants	20.500	WA050064		23,080	23,080
<b>Total Federal Transit Capital Investment Grants</b>					<b>273,750</b>
<i>King County Department of Transportation</i>					
Highway Planning and Construction	20.205	WA700012	56,579		56,579
<i>King County Department of Transportation</i>					
Federal Transit Formula Grants	20.507	WA900256	146,137		146,137
<i>King County Department of Transportation</i>					
Public Transportation Research	20.514	WA267008	81,867		81,867
State of Good Repair Grants Program	20.525	WA540001		460,074	460,074
<b>Total Department of Transportation Federal Transit Administration (FTA)</b>					<b>1,018,407</b>
<b>Total Federal Awards Expended</b>			<b>\$288,729</b>	<b>\$729,678</b>	<b>\$1,018,407</b>

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**KING COUNTY FERRY DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
DECEMBER 31, 2013**

**NOTE 1 - BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as Ferry District's financial statements. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Budgeting, Accounting and Reporting System for Transit Districts* in the State of Washington. The District does not recover indirect costs.

**NOTE 2 - PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Ferry district's portion, are more than shown.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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