



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

King County Ferry District

For the period January 1, 2014 through December 31, 2014

Published August 27, 2015

Report No. 1014869





Washington State Auditor's Office

August 27, 2015

Council and Executive
King County
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,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

King County Ferry District January 1, 2014 through December 31, 2014

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 its major federal program.

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 was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

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, 2014 through December 31, 2014**

Council and Executive
King County
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, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 20, 2015.

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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

August 20, 2015

**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, 2014 through December 31, 2014**

Council and Executive
King County
Seattle, Washington

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

We have audited the compliance of the King County Ferry District, 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, 2014. 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, 2014.

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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

August 20, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Ferry District January 1, 2014 through December 31, 2014

Council and Executive
King County
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the King County Ferry District, Washington, as of and for the year ended December 31, 2014, 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, 2014, 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 18 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 August 20, 2015 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.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 20, 2015

FINANCIAL SECTION

King County Ferry District January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – 2014

Statement of Cash Flows – 2014

Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

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, 2014. 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. During 2014 the District was governed by its Board of Supervisors, which was comprised of all nine members of the King County Council. To provide ferry services, the District contracted 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.

An important change was legislated in late 2014 regarding the governance of the District. Effective January 1, 2015 King County assumed the governance of the District; for more information, please see Note 1 to the financial statements.

Financial Highlights

- As of December 31, 2014, the District's net position is \$30.37 million.
- Total net position increased by \$4.95 million as compared to fiscal year ended December 31, 2013.
- Passenger fare revenue increased to \$1.76 million in 2014 from \$1.63 million in 2013.

Overview of the Financial Statements

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

	2014	2013
Current assets	\$ 11,480,621	\$ 16,902,952
Capital assets	18,937,202	9,735,375
Total assets	30,417,824	26,638,327
Deferred outflows of resources		
Current liabilities	44,957	1,211,010
Total liabilities	44,957	1,211,010
Deferred inflows of resources		
Net investment in capital assets	18,937,202	9,735,375
Unrestricted	11,435,664	15,691,942
Total net position	30,372,867	\$ 25,427,317

The Statement of Net Position represents assets, liabilities and net position. The current assets were \$11.48 million at December 31, 2014, including cash of \$4.87 million, receivables of \$6.46 million and prepaid expenses of \$.15 million. Capital assets increased by \$9.20 million due to an increase in capital projects expenditures primarily for construction of ferry boat and maintenance barge. The total liabilities of \$.04 million were current payables to vendors. 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 \$30.37 million, including investment in capital assets of \$18.94 million and unrestricted net position of \$11.44 million for the District's operations. Total net position increased by \$4.95 million compared to prior year. The District's financial position remains stable.

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

	2014	2013
Operating revenues		
Passenger fares	\$ 1,764,299	\$ 1,625,208
Other operating revenue	298,475	488,123
Non-operating revenues, net		
Taxes	1,185,328	1,176,665
Other non-operating revenues	8,505,762	1,056,503
Total revenues	11,753,864	4,346,499
Operating expenses		
Administrative and professional services	449,056	279,103
Materials and supplies	550,051	558,311
Casualty and liability costs	372,470	302,353
Purchased transportation services	2,862,200	2,828,696
Maintenance	870,535	1,046,592
Miscellaneous expenses	42,341	76,755
Lease and rentals	1,126,237	1,539,376
Depreciation and amortization	535,424	381,517
Total expenses	6,808,314	7,012,703

Profit (Loss) before capital contribution	4,945,550	(2,666,204)
Capital contribution	-	1,800,000
Total changes in net position	4,945,550	(866,204)
Net position, beginning of year	25,427,317	26,293,521
Net position, end of year	<u>\$ 30,372,867</u>	<u>\$ 25,427,317</u>

Passenger fare revenues increased by \$0.13 million from prior year to \$1.76 million. In addition, the District received \$0.30 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 increased by \$7.46 million, primarily due to an increase in grant revenues for capital projects, particularly for construction of two new passenger vessels. Total expenses decreased by \$0.20 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 increased by \$4.95 million and overall, the District had a consistent financial operation from 2013 to 2014.

Capital Assets

The District's capital assets, net of accumulated depreciation as of December 31, 2014, amounted to \$18.94 million, increased by \$9.20 million from the previous year as a result of the capital construction projects. These capital assets include vehicles and equipment, vessel, leasehold improvements, terminals and barges and construction in progress. For further information regarding capital assets, see Note 5 to the financial statements.

	Balance 12/31/2014	Balance 12/31/2013
Vehicles, machinery and equipment	\$192,133	\$123,995
Leasehold improvements	1,885,218	1,467,221
Terminals, barges, and facilities	5,924,123	5,894,582
Vessels	1,800,000	1,800,000
Construction in progress	10,437,206	1,215,631
Less: Accumulated depreciation	<u>(1,301,478)</u>	<u>(766,054)</u>
Total capital assets, net	<u>\$18,937,202</u>	<u>\$9,735,375</u>

Economic Factors and Future Outlook

King County expects to maintain the 2015 property tax levy at the 2014 level and believes that the proposed property tax levy will be sufficient for the District to maintain its current level of operation during 2015. The District will continue to offer the current services on the existing two routes, Vashon Island and West Seattle to Downtown Seattle, and in 2014 ridership on both routes combined increased almost 5 percent over the previous year.

The change to place the District under the governance of King County is expected to decrease the ongoing administrative costs of operating the passenger-only ferry service by as much as 25%.

In 2015 construction of two new vessels is expected to be completed, bringing the District's fleet to three vessels which are owned plus one which it continues to lease through September 2015. The District will also begin researching the potential viability of additional routes on Lake Washington and Puget Sound during 2015.

The district plans to lead and continue environmental planning evaluation, design and implementation of Colman Dock Passenger only ferry facility replacement project.

The 2015 budget is summarized below:

	2015
Passenger fare revenues	\$2,032,128
Property taxes	1,183,252
Grants	6,749,290
Other revenues	35,557
Total budgeted revenues	<u>\$10,000,227</u>
Operating expenses	6,997,800
Capital project expenses	<u>\$9,129,969</u>
Total budgeted expenses	<u>\$16,127,769</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 Marine Division, 201 South Jackson St., MS: KSC-TR-0816, Seattle, Washington 98104.

**KING COUNTY FERRY DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

ASSETS

CURRENT ASSETS

Cash (Note 2)	\$	4,874,891
Taxes receivable		29,058
Interest receivable		8,302
Due from other governments		6,416,402
Prepaid		151,968
Total current assets		11,480,621

NON-CURRENT ASSETS

Capital assets not being depreciated (Note 5)		
Construction in progress		10,437,206
Capital Assets being depreciated		
Vehicles, machinery and equipment		192,133
Leasehold improvements		1,885,218
Vessels		1,800,000
Moorage barges		5,924,123
Less: accumulated depreciation		(1,301,478)
Total net capital assets		18,937,202
Total non-current assets		18,937,202
TOTAL ASSETS	\$	30,417,824

DEFERRED OUTFLOWS OF RESOURCES

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$	44,957
Total current liabilities		44,957
TOTAL LIABILITIES		44,957

DEFERRED INFLOWS OF RESOURCES

NET POSITION

Net investment in capital assets		18,937,202
Unrestricted		11,435,664
TOTAL NET POSITION	\$	30,372,867

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, 2014

OPERATING REVENUES	
Passenger fares	1,764,299
Mitigation revenue	298,475
Total Operating Revenues	2,062,774
OPERATING EXPENSES	
Administrative and professional services	449,056
Materials and supplies	550,051
Casualty and liability costs	372,470
Purchased transportation services	2,862,200
Maintenance	870,535
Miscellaneous expenses	42,341
Leases and rentals (Note 6)	1,126,237
Depreciation and amortization	535,424
Total Operating Expenses	6,808,314
Operating income (loss)	(4,745,540)
NON - OPERATING REVENUES (EXPENSES)	
Investment income	85,954
Taxes levied	1,185,328
Grants and contributions	8,419,808
Total non-operating revenues (expenses)	9,691,090
INCREASE IN NET POSITION	4,945,550
NET POSITION - BEGINNING	25,427,317
NET POSITION - ENDING	\$30,372,867

See Notes to Financial Statements

KING COUNTY FERRY DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from passenger fares	\$	1,764,299
Receipts from services		298,475
Payments to suppliers and for claims		(7,504,445)
Net cash (used) by operating activities		(5,441,671)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Taxes received		1,186,749
Federal grants proceeds		7,398,460
Insurance claim revenue		-
Net cash provided by non-capital financing activities		8,585,209
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash advance		(2,775,000)
Capital expenditures		(9,737,252)
Net cash (used) by capital and related financing activities		(12,512,252)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income		89,014
Net cash provided by investing activities		89,014
NET (DECREASE) IN CASH		(9,279,700)
CASH, BEGINNING OF THE YEAR		14,154,591
CASH, END OF THE YEAR	\$	4,874,891
Reconciliation of Operating Loss to Net Cash Flows Provided (Used) By Operating Activities		
Operating (Loss)	\$	(4,745,540)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization		535,424
Changes in assets and liabilities		
Increase in prepaid		(18,209)
(Decrease) in accounts payable		(1,166,053)
(Increase) in accounts receivable		(47,293)
Net cash (used by) operating activities	\$	(5,441,671)

See Notes to Financial Statements

**KING COUNTY FERRY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

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. During 2014 the Board of Supervisors was the primary governing body of the District. It was 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, had legal and administrative authority over all its resources in 2014.

Effective January 1, 2015 King County will assume all rights, powers, functions and obligations of the District which were formerly vested by law in the District's Board of Supervisors. Pursuant to the ordinance which was approved by King County Council on November 20, 2014 as authorized by 36.150 RCW, all future activities will be undertaken in the name of King County, and title to all property or property rights of the District will be vested in the County. The District's Board of Supervisors will be abolished as of January 01, 2015.

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 net investment in capital assets, restricted and unrestricted net positions. Operating statements

present increases (revenues and gains) and decreases (expenses and losses) in net position. The District discloses changes in cash 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.

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 receivables were collectible as of December 31, 2014.

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*.

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.

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 constitutional provisions or enabling legislation, that restrict the use of net assets.

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, 2014, the District reported total investment in capital assets was \$18,937,202 and unrestricted net position of \$11,435,664.

Income Tax

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

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).

Oversight of the Pool 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.

As of December 31, 2014, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$4,874,891	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, 2014, 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, 2014, 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, 2014 are detailed as follows:

Grants receivable	\$1,377,274
Receivable from King County Marine Division	239,128
Cash advances to King County Marine Division	<u>4,800,000</u>
Total receivable	\$6,416,402

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 \$1,185,328 in 2014.

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.

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:

<u>Description</u>	<u>Estimated Useful Life</u>
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

Capital assets activities for the year ended December 31, 2014 were as follows:

	Balance 12/31/2013	Increases	Decreases	Balance 12/31/2014
Capital assets not being depreciated:				
Construction in progress	\$ 1,215,631	9,729,695	(508,120)	\$ 10,437,206
Subtotal	1,215,631	9,729,695	(508,120)	\$ 10,437,206
Capital assets, being depreciated:				
Vehicles, machinery and equipment	123,995	68,138		\$ 192,133
Lease improvements	1,467,221	417,997		\$ 1,885,218
Terminals, barges, and facilities	5,894,582	29,541		\$ 5,924,123
Vessel	1,800,000			\$ 1,800,000
Subtotal	9,285,798	515,676	-	\$ 9,801,474
Less accumulated depreciation for:				
Vehicles, machinery and equipment	(119,897)	(31,705)		(151,602)
Lease improvements	(440,166)	(169,944)		(610,110)
Terminals, barges, and facilities	(130,991)	(221,275)		(352,266)
Vessel	(75,000)	(112,500)		(187,500)
Subtotal	(766,054)	(535,424)	-	\$ (1,301,478)
Total capital assets, net of accumulated depreciation	\$ 9,735,375	\$9,709,947	\$ (508,120)	\$ 18,937,202

Construction Commitments

In 2014, the District continued several capital projects, including construction of Seattle Terminal (Pier 50) and Vashon Terminal projects.

At year-end the District's commitments with contractors were as follows:

Project	Spent to Date	Remaining Commitment
Seattle Ferry Terminal	253,926	3,456,147
MD Vessel Acquisition 1	9,601,879	4,049,272
MD Vashon Terminal Improvements	581,402	238,478

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 of 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 \$535,424 in 2014.

NOTE 6 - LEASES

The total lease expense incurred in 2014 was \$1,126,237 as follows:

Revenue Vehicles (Vessels)	\$ 395,951
Service Vehicles (Shuttle)	639,851
Stations and Terminals	89,799
Other Miscellaneous Leases	<u>636</u>
Total	\$1,126,237

Revenue Vehicles - The District leases one vessel, Melissa Ann, 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 with a reduced monthly rate of \$32,000.

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 2014, the agreement was extended for one year. 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 is adjusted annually 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.

In 2012, the District entered into an agreement with the Washington State Department of Transportation (WSDOT) for the long-term use of Pier 48 and the Pier 48 Facilities. The agreement retroactively commenced on December 28, 2011 and expires on June 30, 2016 with two successive options to renew for up to one year for each option. No payments were due for the period December 28, 2011 through June 30, 2014 due to a prior funding agreement between WSDOT and King County. Annual payments of \$57,000 commenced on July 1, 2014 based on the Port of Seattle tariff schedule as a market rate source. If the tariff schedule varies by more than 10% the annual payments will be increased or decreased accordingly.

Future minimum lease payments for these leases:

2015	\$407,219
2016	91,652
2017	64,099
2018	65,061
2019	\$ 32,773

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:

- (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, a limit of \$5,000 for medical payments and a deductible of \$10,000 (\$25,000 for Charterer's Legal Liability);
- (3) Hull and machinery (property) coverage up to \$2,150,000 for Melissa Ann, \$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 \$50,000,000 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.

Claims against the District in 2014 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. At year-end these costs are offset by the District's interest earnings and grant revenue that were received directly by the County during the year. Net costs of \$12,664,403 were billed by the County in 2014, and \$239,128 was due from the County as of December 31, 2014.

In February 2010 and September 2014, the District's Board approved advance payments of \$2,025,000 and \$2,775,000 to the County. These cash advances, combined with the net receivable above, results in a total receivable of \$5,039,128.

NOTE 9 - Contingencies and Litigations

The District has recorded in its financial statements all material liabilities, including an estimate for situation which are not yet resolved but where, based on available information, management believes it is probable that the District will have to make payment. In the opinion of management, the District's insurance policies are adequate to pay all known or pending claims.

The District participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The District believes that such disallowances, if any, will be immaterial.

**KING COUNTY FERRY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor			Current Year Expenditures		
<i>Pass- Through Grantor</i>					
Program Title	Federal CFDA Number	Other Identification Number	From Pass-Through Awards	From direct Awards	Total Expenditures
Department of Transportation Federal Transit Administration (FTA)					
Federal Transit Capital Investment Grants	20.500	WA030241		2,000,001	2,000,001
Federal Transit Capital Investment Grants	20.500	WA050064		180,059	180,059
Total Federal Transit Capital Investment Grants					2,180,060
Highway Planning and Construction	20.205	WA70X019		1,529,188	1,529,188
<i>Pass through King County Department of Transportation</i>					
Highway Planning and Construction	20.205	WA70X006	1,102,860		1,102,860
Highway Planning and Construction	20.205	WA70X009	1,000,000		1,000,000
Highway Planning and Construction	20.205	WA70X012	59,453		59,453
Highway Planning and Construction	20.205	WA70X017	773,442		773,442
Total Highway Planning and Construction					4,464,943
Federal Transit Formula Grants	20.507	WA95X047		95,487	95,487
<i>Pass through King County Department of Transportation</i>					
Federal Transit Formula Grants	20.507	WA900256	37,363		37,363
Federal Transit Formula Grants	20.507	WA90X525		920,920	920,920
Total Federal Transit Formula Grants					1,053,770
State of Good Repair Grants Program	20.525	WA540001	-	643,402	643,402
<i>Pass through from King County Department of Transportation</i>					
Public Transportation Research	20.514	WA267008	66,433		66,433
Total Department of Transportation Federal Transit Administration (FTA)					8,408,608
Total Federal Awards Expended			\$3,039,551	\$5,369,057	\$8,408,608

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, 2014**

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared using the full accrual basis of accounting. 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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