



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Cultural Development Authority of King County (4Culture)

For the period January 1, 2017 through December 31, 2017

Published December 10, 2018

Report No. 1022702





Office of the Washington State Auditor

Pat McCarthy

December 10, 2018

Board of Directors
4Culture
Seattle, Washington

Report on Financial Statements

Please find attached our report on the 4Culture's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

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**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**

4Culture

January 1, 2017 through December 31, 2017

Board of Directors
4Culture
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 governmental activities and each major fund of 4Culture, a component unit of King County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated November 16, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’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 Authority’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 Authority's financial statements are free from material misstatement, we performed tests of the Authority'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 Authority'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 Authority'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.



Pat McCarthy

State Auditor

Olympia, WA

November 16, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

4Culture

January 1, 2017 through December 31, 2017

Board of Directors
4Culture
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of 4Culture, a component unit of King County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of 4Culture, as of December 31, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Lodging Tax Special Revenue, 1% for Art Special Revenue and Cultural Special Account funds, 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 and required supplementary information listed on page 9 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

November 16, 2018

FINANCIAL SECTION

4Culture

January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental
Funds – 2017

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Comparison – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of CDA's Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3
– 2017

Schedule of CDA Contributions – PERS 1 and PERS 2/3 – 2017

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of 4Culture, the Cultural Development Authority of King County (the CDA), presents a narrative overview and analysis of the financial activities of the CDA for the year ended December 31, 2017. This information should be considered in conjunction with the CDA's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS – 2017

As of December 31, 2017, the CDA's total net position was \$38.9 million, all of which was restricted and expendable for cultural programs. Total net position of the CDA decreased by \$6.5 million, or 14.3%, for the year ended December 31, 2017. This decrease was composed of \$10.9 million of total revenues, \$16.5 million of total expenses, and \$0.9 million of intergovernmental transfers to King County.

As of December 31, 2017, the CDA's total fund balances were \$53.5 million, substantially all of which was restricted for specific purposes. Total fund balances of the CDA decreased by \$5.0 million, or 8.6%, for the year ended December 31, 2017. This decrease was composed of \$13.6 million of total fund revenues and \$18.6 million of total fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the CDA's basic financial statements, which include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the CDA's finances in a manner similar to a private sector business. The statement of net position provides information about the CDA's financial position, including assets, deferred outflows, liabilities, deferred inflows and net position, which assists in assessing the CDA's financial position at the end of the year. The statement of activities presents information on how the CDA's net position changed during the fiscal year. Over time, increase or decreases in the CDA's net position may serve as a useful indicator of whether the financial position of the CDA is improving or deteriorating.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This basis of accounting is similar to that used by most businesses, taking into account revenues and expenses connected with the current fiscal year, regardless of the timing of cash receipts and payments.

The CDA's activities in 2017 are all classified as governmental activities, which are principally supported by intergovernmental revenues. The CDA reported no business-type activities in 2017, which are intended to recover all or a significant portion of their costs through user fees and charges to external users of services.

Fund Financial Statements

The CDA, like other public authorities and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All CDA funds used in 2017 are categorized as major governmental funds. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The statements focus on how cash and other financial assets can be readily converted to financial resources and the balances left at year-end that are available for use. Such information can be useful in determining whether there will be adequate financial resources to meet the current needs of the CDA. The CDA presents a balance sheet and statement of revenues, expenditures, and changes in fund balances for each of its funds. Each of these statements provides a reconciliation to the government-wide financial statements.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2017

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

Net position may serve over time as a useful indicator of the CDA's financial position. At December 31, 2017, the total net position of the CDA was \$38,936,896, a decrease of 14.3% from the net position of the previous year. The entire net position was restricted and expendable for arts and culture programs.

	Net Position as of December 31, <u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$27,696,675	\$24,944,782
Investments	32,456,316	45,211,179
Other assets	<u>422,454</u>	<u>1,289,599</u>
Total assets	<u>60,575,445</u>	<u>71,445,560</u>
Deferred Outflows	303,079	325,845
Liabilities:		
Current liabilities	13,737,305	16,817,654
Noncurrent liabilities	<u>7,978,159</u>	<u>9,479,214</u>
Total liabilities	<u>21,715,464</u>	<u>26,296,868</u>
Deferred Inflows	226,164	28,075
Net Position:		
Net investment in capital assets	-	-
Restricted for arts and cultural purposes	38,936,896	45,446,462
Unrestricted	<u>-</u>	<u>-</u>
Total net position	<u>\$38,936,896</u>	<u>\$45,446,462</u>

Current liabilities include \$7.0 million of unearned revenues related to the One Percent (1%) for Art program and \$6.3 million of unearned revenues related to the Building for Culture capital investment program. Noncurrent liabilities include \$1.4 million of net pension liability and \$6.4 million for the total of future required intergovernmental payments to King County for the principal portion of debt service requirements on County bonds issued for cultural purposes before December 31, 2002 and County bonds issued for the Building for Culture capital investment program in 2016.

Changes in restricted net position are primarily due to the result of timing differences between the recognition of individual programs' revenues and their related expenditures. The restricted net position is expected to significantly decrease each year through 2020 as the Cultural Special Account Fund is drawn down for use for program expenditures as a result of current legislation that temporarily discontinues the use of lodging taxes for cultural purposes in King County until 2021.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2017

Analysis of Changes in Net Position

The CDA's total net position decreased \$6,509,566, or 14.3%, during 2017. The decrease was primarily due to the planned drawdown of the Cultural Special Account Fund in light of decreased lodging tax revenues. The following information reflects how the CDA's net position changed during the fiscal year.

	<u>2017</u>	<u>2016</u>
Revenues:		
Lodging tax revenues	\$ -	\$ 3,285,499
Program support from King County	9,964,714	15,076,600
Other program revenues	343,159	643,769
Investment earnings, net	<u>583,765</u>	<u>307,598</u>
Total revenues	<u>10,891,638</u>	<u>19,313,466</u>
Expenses:		
Culture and recreation program activities	<u>16,469,754</u>	<u>22,969,156</u>
Total expenses	<u>16,469,754</u>	<u>22,969,156</u>
Increase (decrease) in net position before transfers	<u>(5,578,116)</u>	<u>(3,655,690)</u>
Intergovernmental Transfers:		
Transfer of noncurrent liability from King County	-	(7,114,018)
Payments to King County for County debt interest	<u>(931,450)</u>	<u>(689,351)</u>
Total transfers	<u>(931,450)</u>	<u>(7,803,369)</u>
Total increase (decrease) in net position	<u>\$ (6,509,566)</u>	<u>\$(11,459,059)</u>

Program support from King County includes revenues for the One Percent (1%) for Art and Building for Culture capital investment programs, revenues for other grants to be managed by the CDA and awarded by King County to other organizations, and special appropriations for arts and cultural programs managed by the CDA. Program support from King county decreased in 2017 primarily due to reduced Building for Culture capital expenditures compared to the prior year and the correlated reduced recognition of revenues for the program.

Cultural and recreation program expense amounts and allocations are incurred in accordance with requirements specified in the King County Code and approved budgets. Certain public art project expenses are partially dependent on the timing of King County construction projects. Expenses decreased in 2017 primarily due to reduced Building for Culture capital expenditures compared to the prior year.

Intergovernmental transfers were for required payments of \$0.9 million to King County for the interest portion of debt service requirements on County bonds issued for cultural purposes before December 31, 2002 and County bonds issued in 2016 for the Building for Culture capital investment program.

ANALYSIS OF FUNDS

As noted earlier, the CDA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund reporting is to provide information on near-term inflows, outflows, and balances of resources that are available for spending.

The CDA's total governmental fund balances at December 31, 2017 were \$53.5 million, a decrease of \$5.0 million (8.6%) over the fund balances of the previous year. Total fund balances included (1) \$4.7 million in the General Fund; (2) \$5.8 million in the Lodging Tax Special Revenue Fund; (3) \$7.0 million in the One Percent (1%) for Art Special Revenue Fund; and (4) \$36.0 million in the Cultural Special Account Fund. Substantially all (99.9%) of the total fund balance is restricted due to certain legal restrictions on its specific use.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2017

Total fund balances of the CDA decreased by \$5.0 million for the year ended December 31, 2017. This decrease was composed of (1) \$13.6 million of total fund revenues and (2) \$18.6 million of total fund expenditures. The net decrease in total fund balances was primarily due to the planned drawdown of the Cultural Special Account Fund in light of decreased lodging tax revenues.

Total fund revenues of \$13.6 million in 2017 included (1) \$5.9 million of recognized program revenues from King County for the Building for Culture capital investment program and (2) \$4.1 million of program revenues from King County for the One Percent for Art program. Other revenues included other King County program support, investment earnings, fees from consulting services and grants and contributions from other sources.

Total expenditures of \$18.6 million in 2017 included (1) \$5.9 million of expenditures for the Building for Culture capital investment program, (2) \$5.0 million of expenditures for the lodging tax awards program and (3) \$2.2 million of expenditures for required debt service payments on King County debt. Other expenditures were for other arts and cultural support, public art projects, and management and general supporting activities.

Significant interfund transfers included a \$7.9 million net transfer from the Cultural Special Account Fund to the Lodging Tax Special Revenue Fund for use for current year programs.

There were no significant variances of actual results from the original or final budget except for (1) a \$2.1 million shortfall in General Fund revenues due to the timing of revenues recognized for the Building for Culture capital investment program; (2) an under-expenditure of \$4.0 million for cultural programs in the General Fund due to the timing of payments for the Building for Culture capital investment program and the Preservation Action Fund program; (3) an excess of \$2.0 million of revenues in the One Percent for Art Special Revenue Fund due to the timing of revenue receipts from the County; and (4) an under-expenditure of \$0.6 million for public art projects in the One Percent for Art Special Revenue Fund due to the timing of County construction projects.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The CDA relies heavily on King County support to accomplish its mission and programs. Reduction or elimination of King County funding sources could have a substantial detrimental impact on the CDA operations. Current legislation temporarily discontinues the use of lodging tax receipts for cultural purposes in King County until 2021. The CDA has designated the Cultural Special Account Fund as the funding source for lodging tax program expenditures during this interim period.

Revenues and expenses to be recognized in the 2018 government-wide statement of activities are expected to remain at 2017 levels in all categories except for a projected increase of \$5.1 million in expenses for culture program activities.

Revenues and expenses to be recognized in the 2018 fund financial statements are expected to remain at 2017 levels in all categories except for (1) projected decrease of \$2.1 million in General Fund revenues from program support from King County; (2) projected decrease of \$3.2 million in One Percent for Art Special Revenue Fund revenues from program support from King County; (3) projected increase of \$2.6 million in General Fund expenditures for culture program activities; and (4) projected \$2.0 million increase in One Percent for Art Special Revenue Fund expenditures for culture program activities.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the CDA's finances for all those with an interest in the CDA's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the CDA's finance department at 4Culture, 101 Prefontaine PI S, Seattle, WA 98104.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	27,696,675	-	27,696,675
Investments	32,456,316	-	32,456,316
Due from King County	15,000	-	15,000
Other current assets	94,002	-	94,002
Prepaid rent, noncurrent	313,452	-	313,452
Total assets	<u>60,575,445</u>	<u>-</u>	<u>60,575,445</u>
DEFERRED OUTFLOWS	303,079		303,079
LIABILITIES			
Accounts payable and other accrued liabilities	438,328	-	438,328
Unearned revenues	13,298,977	-	13,298,977
Noncurrent liabilities			
Due within one year	1,261,572	-	1,261,572
Due in more than one year	<u>6,716,587</u>	<u>-</u>	<u>6,716,587</u>
Total liabilities	<u>21,715,464</u>	<u>-</u>	<u>21,715,464</u>
DEFERRED INFLOWS	226,164		226,164
NET POSITION			
Net investment in capital assets	-	-	-
Restricted for culture and recreation purposes	38,936,896	-	38,936,896
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>38,936,896</u>	<u>-</u>	<u>38,936,896</u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Program	Expenses	Program Revenues			Net Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental Activities:					
Culture and recreation	16,469,754	72,527	10,235,346	-	<u>(6,161,881)</u>
General revenues and transfers:					
Investment earnings					583,765
Payments to King County for debt service interest					<u>(931,450)</u>
Total general revenues and transfers					<u>(347,685)</u>
Change in net position					(6,509,566)
Net Position - January 1, 2017					45,446,462
Net Position - December 31, 2017					<u><u>38,936,896</u></u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Special Account Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	11,080,840	6,014,814	7,015,697	3,585,324	27,696,675
Investments	-	-	-	32,456,316	32,456,316
Due from a primary government	-	-	15,000	-	15,000
Other current assets	50,312	12,792	30,898	-	94,002
TOTAL ASSETS	<u>11,131,152</u>	<u>6,027,606</u>	<u>7,061,595</u>	<u>36,041,640</u>	<u>60,261,993</u>
LIABILITIES					
Accounts payable	34,788	120,382	25,745	-	180,915
Payroll and other accrued liabilities	86,802	129,748	40,863	-	257,413
Unearned Revenues	6,303,990	-	-	-	6,303,990
Total Liabilities	<u>6,425,580</u>	<u>250,130</u>	<u>66,608</u>	<u>-</u>	<u>6,742,318</u>
FUND BALANCES					
Nonspendable	30,058	12,792	84	-	42,934
Restricted	4,675,514	5,764,684	6,994,903	36,041,640	53,476,741
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>4,705,572</u>	<u>5,777,476</u>	<u>6,994,987</u>	<u>36,041,640</u>	<u>53,519,675</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>11,131,152</u>	<u>6,027,606</u>	<u>7,061,595</u>	<u>36,041,640</u>	<u>60,261,993</u>

Reconciliation of total governmental fund balances to net position:

Total fund balances	53,519,675
Certain public art unearned revenues are not due and payable in the current period and are not reported on the fund balance sheet	(6,994,987)
Long-term liabilities, including bonds payable and net pension liabilities, are not due and payable in the current period and are not reported on the fund balance sheet	(7,978,159)
Deferred outflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	303,079
Deferred inflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	(226,164)
Noncurrent prepaid rent is not a current financial resource and is not reported on the fund balance	313,452
Total net position of governmental activities	<u>38,936,896</u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Special Account Fund	Total Governmental Funds
REVENUES					
Program Support from King County	8,636,414	-	4,075,890	-	12,712,304
Lodging Tax Gross Receipts	-	-	-	-	-
Investment Earnings	105,668	54,708	63,409	359,980	583,765
Miscellaneous	74,827	22,750	230,663	14,919	343,159
Total Revenues	<u>8,816,909</u>	<u>77,458</u>	<u>4,369,962</u>	<u>374,899</u>	<u>13,639,228</u>
EXPENDITURES					
Culture and recreation program activities	7,513,808	7,303,472	1,677,451	-	16,494,731
Payments to King County for debt service	1,999,150	167,300	-	-	2,166,450
Total Expenditures	<u>9,512,958</u>	<u>7,470,772</u>	<u>1,677,451</u>	<u>-</u>	<u>18,661,181</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(696,049)</u>	<u>(7,393,314)</u>	<u>2,692,511</u>	<u>374,899</u>	<u>(5,021,953)</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	3,404,318	7,885,011	182,357	-	11,471,686
Interfund transfers out	(154,943)	(521,689)	(127,278)	(10,667,776)	(11,471,686)
Total Other Financing Sources (uses)	<u>3,249,375</u>	<u>7,363,322</u>	<u>55,079</u>	<u>(10,667,776)</u>	<u>-</u>
Net changes in fund balances	2,553,326	(29,992)	2,747,590	(10,292,877)	(5,021,953)
Fund Balances - January 1, 2017	2,152,246	5,807,468	4,247,397	46,334,517	58,541,628
Fund Balances - December 31, 2017	<u>4,705,572</u>	<u>5,777,476</u>	<u>6,994,987</u>	<u>36,041,640</u>	<u>53,519,675</u>
Reconciliation of changes in fund balances to changes in net position:					
Net change in fund balances - total governmental funds					(5,021,953)
Public art fund balances are classified as unearned revenue on the government-wide statement of net position, thus the net current year increase of public art fund balances does not affect net position					(2,747,590)
Certain net pension liability changes increase net position but do not increase current financial resources of funds					60,543
Payments to King County for principal debt service consume current financial resources of funds but do not affect net position					1,235,000
Certain compensated absences liability changes reduce net position but do not decrease current financial resources of funds					(15,343)
Amortization of noncurrent prepaid rent reduces net position but does not decrease current financial resources of funds					(20,223)
Change in net position of governmental activities					<u>(6,509,566)</u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund			Lodging Tax Special Revenue Fund			1% for Art Special Revenue Fund			Cultural Special Account Fund		
	Original and Final Budget	Actual	Variance - Positive (Negative)	Original and Final Budget	Actual	Variance - Positive (Negative)	Original and Final Budget	Actual	Variance - Positive (Negative)	Original and Final Budget	Actual	Variance - Positive (Negative)
REVENUES												
Program Support from King County	10,705,000	8,636,414	(2,068,586)	-	-	-	1,986,694	4,075,890	2,089,196	-	-	-
Lodging Tax Gross Receipts	-	-	-	-	-	-	-	-	-	-	-	-
Investment Earnings	25,000	105,668	80,668	10,000	54,708	44,708	17,500	63,409	45,909	610,000	359,980	(250,020)
Miscellaneous	80,000	74,827	(5,173)	-	22,750	22,750	-	230,663	230,663	-	14,919	14,919
Total Revenues	10,810,000	8,816,909	(1,993,091)	10,000	77,458	67,458	2,004,194	4,369,962	2,365,768	610,000	374,899	(235,101)
EXPENDITURES												
Culture and recreation program activities	11,522,621	7,513,808	4,008,813	7,706,204	7,303,472	402,732	2,267,565	1,677,451	590,114	-	-	-
Payments to King County for debt	1,999,150	1,999,150	-	167,300	167,300	-	-	-	-	-	-	-
Total Expenditures	13,521,771	9,512,958	4,008,813	7,873,504	7,470,772	402,732	2,267,565	1,677,451	590,114	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(2,711,771)	(696,049)	2,015,722	(7,863,504)	(7,393,314)	470,190	(263,371)	2,692,511	2,955,882	610,000	374,899	(235,101)
OTHER FINANCING SOURCES (USES)												
Interfund transfers in	3,399,878	3,404,318	4,440	7,910,159	7,885,011	(25,148)	-	182,357	182,357	20,223	-	(20,223)
Interfund transfers out	(20,223)	(154,943)	(134,720)	(509,577)	(521,689)	(12,112)	(127,375)	(127,278)	97	(10,673,085)	(10,667,776)	5,309
Total Other Financing Sources (uses)	3,379,655	3,249,375	(130,281)	7,400,582	7,363,322	(37,260)	(127,375)	55,079	182,455	(10,652,862)	(10,667,776)	(14,914)
Net changes in fund balances	667,884	2,553,326	1,885,442	(462,922)	(29,992)	432,930	(390,746)	2,747,590	3,138,337	(10,042,862)	(10,292,877)	(250,015)

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cultural Development Authority of King County (CDA) dba 4Culture have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 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 Cultural Development Authority of King County (CDA), dba 4Culture, is a public authority organized pursuant to the State of Washington RCW 35.21.730 through 35.21.759 and King County Ordinance 14482. The CDA commenced operations on January 1, 2003, and began doing business as “4Culture” effective April 4, 2004. The CDA operates as a corporation for public purposes and was established to support, advocate for and preserve the cultural resources of the region in a manner that fosters excellence, vitality and diversity.

The CDA is located in Seattle, Washington and is governed by a 15-member Board of Directors and five ex-officio members. The Directors are appointed by King County Councilmembers and the King County Executive and confirmed by the King County Council. The CDA receives various funds from King County and other sources that are designated for arts, cultural and public art use, including a portion of the revenue generated by the King County lodging tax and one percent of King County expenditures for certain construction projects.

The CDA prepares and issues its own financial statements, including government-wide financial statements, which are audited by the State Auditor. These statements may be obtained from the finance department at 4Culture, 101 Prefontaine PI S, Suite 200, Seattle, WA 98104. In addition, the CDA is included as a component unit in King County’s annual financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the CDA. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The CDA reported no business-type activities in 2017.

The Statement of Activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) grants and contributions that are restricted to meeting the operation requirements of a particular function; and (2) charges to customers who purchase services provided by a given function. Investment earnings are reported as general revenues.

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

Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with generally accepted accounting principles. The effect of interfund activity has been removed from these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the CDA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures are recorded only when the payments are due.

Major Governmental Funds

All funds used by the CDA in 2017 are classified as major governmental funds, as follows:

The General Fund is the CDA's primary operating fund. It accounts for all financial resources of the CDA except those required to be accounted for in another fund. CDA activities accounted for in the fund include management and maintenance of the King County art collection, management of grants from King County and other sources, and providing fee-based public art consulting services.

The Lodging Tax Special Revenue Fund has historically been used to receive and manage all lodging tax revenues transferred to the CDA from King County and designated for cultural purposes in accordance with the State of Washington RCW 67.28.180 and KCC chapters 4.08, 4.42 or 2.48, or by similar statutory and ordinance authority. Taxes transferred to the CDA may only be used for art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts and are allocated in the following order per KCC 4.42.025: 1) forty percent is transferred to the CDA's cultural special account; 2) support of related administration costs of the cultural programs administered by the CDA; 3) division of lodging tax revenues after the previous allocations between arts programs and heritage programs with at least twenty percent allocated to heritage programs; 4) transfers back to King County for debt service requirements on County bonds issued for cultural purposes prior to December 31, 2002; and 5) allocation within arts and heritage programs to sustained support, cultural facilities, special projects and cultural education according to proscribed percentages. Current legislation temporarily discontinues the use of lodging tax receipts for cultural purposes in King County until 2021. Due to changes in the law this fund is no longer technically required; however, it continues to be used by the CDA for historical expenditure comparison purposes.

The One Percent (1%) for Art Special Revenue Fund is used to receive and manage all one percent for art allocations transferred from King County in accordance with KCC chapters 4.08, 4.40 and 2.46, or by similar statutory and ordinance authority. All eligible King County capital improvement projects that are publicly accessible and visible, or for which there is a need for mitigation, contribute an amount equal to one percent of the eligible project costs to the public art program, which is appropriated by King County and transferred to the CDA on an annual basis. The one percent receipts by the CDA are used to support the selection, acquisition, and display of works of art; artist fees, design, planning and predesign service contracts and commissions; expenses for technical assistance provided by architects and/or engineers; repair and maintenance of public artworks accessioned into the county's public art collection; public art program administrative expenses relating to acquiring, developing or maintaining public art; costs of communicating with and receiving input from citizens, working with professional artists, introduction of public art to children, and education of the public about the county's rich cultural and artistic heritage; and documentation and public education material for the public art program.

The Cultural Special Account Special Revenue Fund is used to receive and manage 40% of the CDA's annual lodging tax revenues through 2012 in accordance with the State of Washington RCW 67.28.180, KCC chapters 4.08.195 and 4.42.025, and CDA policy. The account may only be used for art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts. As noted above, current legislation temporarily discontinues the use of lodging tax receipts for cultural purposes in King County until 2021. The CDA has designated the Cultural Special Account Fund as the funding source for lodging tax program expenditures during this interim period.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information

Annual budgets are adopted based on the accrual basis of accounting for the government-wide financial statements and converted to the modified accrual basis of accounting for the fund financial statements. There were no changes in the original adopted budget.

Assets, Liabilities, Fund Balances, Net Position

Cash and Cash Equivalents - In addition to deposits with a qualified public depository as described in Note 4, cash and cash equivalents include funds held in the Washington State Local Government Investment Pool since these funds can be liquidated on demand.

Noncurrent Prepaid Rent - Certain expenditures incurred at the inception of the CDA's current lease for office space were recorded as noncurrent prepaid rent. These costs are amortized on a straight-line basis over the 29-year life of the lease.

Unearned Revenues – Unearned revenues primarily represent the total amounts collected from King County for the One Percent (1%) for Art program and the Building for Culture capital facility investment program for which the revenue recognition criteria have not been met. The CDA recognizes revenue as earned for these programs to the extent that expenditures are incurred in the current fiscal year.

Compensated Absences - The CDA employees earn 12 sick days per year and 12 to 30 days of vacation per year, depending on length of service. An unlimited amount of sick leave and 30 days of vacation may be accrued. An employee leaving employment is entitled to be paid for unused vacation leave, and, if leaving employment due to death or retirement with at least five years of service, for 35 percent of the value of unused sick leave. All vacation pay liability is accrued in the government-wide financial statements. Due to the relative infrequency of occurrence and immateriality of amounts, the expense for payments of unused sick leave upon retirement is recognized at the time of retirement.

Other

Use of Estimates - Management uses estimates and assumptions in reporting certain amounts and disclosures, and actual results could differ from those estimates.

Income Tax Status - For federal tax purposes, the CDA is considered an integral part of King County and accordingly is exempt from federal income taxes. Contributions to the CDA for public purposes are charitable contributions deductible to the extent provided in Section 170 of the Internal Revenue Code.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental funds balance sheet includes a reconciliation between total governmental fund balances and total net position as reported in the government-wide statement of net position. The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between total net changes in fund balances and total changes in net position as reported in the government-wide statement of activities.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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Notes to Financial Statements
December 31, 2017

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

The CDA maintains a deposit relationship with a local commercial bank. All deposits with this qualified public depository that are not insured by the Federal Deposit Insurance Corporation (FDIC) are partially collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under charter 39.58 RCW and constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositories within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the CDA's deposits may not be recovered. As of December 31, 2017, the CDA's total deposits, excluding investments in the WA State LGIP, were \$1.37 million in carrying amount and \$1.77 million of bank balance, of which \$0.52 million and \$0.76 million, respectively, was exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The CDA has an investment policy to guide the management of its assets and help ensure that all investment activity is within the regulations established by State and County law. The primary objective is the preservation of principal.

State statutes authorize the CDA to invest in certificates, notes, or bonds of the United States, and other obligations of the United States or its agencies or any corporation wholly owned by the government of the United States. Statutes also authorize the CDA to invest in banker's acceptances purchased on the secondary market, federal home loan bank notes and bonds, federal land bank bonds, federal national mortgage association notes and debentures and guaranteed certificates of participation.

The CDA voluntarily invests in the Washington State Local Government Investment Pool (LGIP). The LGIP values its investments at amortized cost, which approximates fair value. The LGIP portfolio is managed to meet the portfolio maturity, quality, diversification and liquidity requirements set forth in GASB 79 for external investment pools who wish to measure, for financial reporting purposes, all of its investments at amortized cost. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee and the Washington State Auditor's Office.

LGIP participants may withdraw funds from the LGIP on any business day and must notify the LGIP of any withdrawal over \$1.0 million no later than 9 A.M. on the same day the withdrawal is made. The State Treasurer also may suspend redemptions if the New York Stock Exchange suspends trading or closes, if U.S. bond markets are closed, if the SEC declares an emergency or if it has determined irrevocably to liquidate the LGIP and suspend withdrawals and payments or withdrawal proceeds in order to facilitate the permanent termination of the LGIP in an orderly manner.

The CDA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2017

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

In the schedule below, all investments are recorded at fair value measurements using significant other observable inputs including issuer spread scales created by Interactive Data based on the new issue market, secondary trading, and dealer quotes (Level 2 inputs), except for U.S Treasury notes, which are recorded at fair value measurements using quoted market prices (Level 1 inputs), and the Washington State LGIP and money market fund investments, which are recorded at amortized cost. The schedule below shows the types of investments, the average interest rate and the effective duration limits of all CDA investments as of December 31, 2017:

<u>Investment Type</u>	<u>Recorded Value</u>	<u>Cost</u>	<u>Average Interest Rate</u>	<u>Effective Duration(Yrs)</u>
Washington State LGIP	\$ 26,322,660	\$ 26,322,660	1.28%	0.003
Federal Home Loan Bank Bonds	16,980,829	17,107,713	2.44%	1.585
Federal National Mortgage Assn Notes	7,488,205	7,621,539	1.38%	2.488
Federal Home Loan Mortgage Corp Notes	2,364,507	2,382,246	2.08%	1.057
U.S. Treasury Notes	2,762,928	2,727,742	3.26%	1.172
Federal Farm Credit Bank Bonds	1,903,367	1,918,870	2.24%	1.014
Other / Money Market Fund	<u>956,480</u>	<u>956,480</u>	<u>0.92%</u>	<u>0.003</u>
Subtotals	<u>\$ 58,778,976</u>	<u>\$ 59,037,250</u>	<u>1.78%</u>	0.906
Less WA State LGIP (cash equivalent)	<u>(26,322,660)</u>			
Total investments per Stmt of Net Position	<u>\$ 32,456,316</u>			

Interest Rate Risk – Investments - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the CDA manages its exposure to interest rates risk by setting maturity and effective duration limits for its portfolio. At December 31, 2017, the combined weighted average effective duration of the CDA's portfolio was 0.906 years.

Credit risk - Credit risk is the risk that an issuer will not fulfill its obligations. At December 31, 2017 all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AA+". The Washington State Local Government Investment Pool is not rated.

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the CDA's investment in a single issuer. At December 31, 2017, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: WA State Local Government Investment Pool – 45%, Federal Home Loan Banks – 29%, and Federal National Mortgage Association – 13%.

NOTE 4 – NONCURRENT PREPAID RENT

Under the terms of a lease for office space entered into in 2005, certain advance lease transfer payments were recorded as noncurrent prepaid rent. The prepaid rent is being amortized on a straight-line basis over the 29-year life of the lease; annual amortization amounts are \$20,220. Prepaid rent consisted of the following at December 31, 2017:

Prepaid rent, original cost	\$ 583,089
Accumulated amortization	<u>(249,017)</u>
Net book value	<u>\$ 333,672</u>
Current portion	<u>(20,220)</u>
Prepaid rent, noncurrent	<u>\$ 313,452</u>

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2017

NOTE 5 – PENSION PLANS

All eligible CDA personnel participate in the Public Employees' Retirement System (PERS), a statewide local government retirement system administered by the State of Washington's Department of Retirement Systems (DRS). PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes, dependent in part on when the employee member joined the system. Plans 1 and 2 are defined benefit plans; retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Plan 3 is a defined benefit plan with a defined contribution component; employer contributions finance a deferred benefit component and member contributions finance a deferred contribution component.

This note presents summary pension plan information specific to the CDA. Additional general information regarding the plans including benefits and vesting requirements, significant actuarial assumptions, how the discount rate was determined, assumed asset allocation of the plan's portfolio and long-term expected real rates of return can be found in the DRS' publicly available Comprehensive Annual Financial Report (CAFR), which can be downloaded from the DRS website at www.drs.wa.gov. This general information is also available in King County's Comprehensive Annual Financial Report (CAFR).

Each biennium, the state Pension Funding Council adopts employer contribution rates for each PERS plan; all employers are required to contribute at the level established by the Legislature. The required employer contribution rate expressed as a percentage of current-year covered payroll is 12.7% as of December 31, 2017 for all plans. The required employee contribution rate as of December 31, 2017 is 6% for Plan 1, 7.38% for Plan 2, and ranges from 5 to 15% based on member choice for Plan 3. Both the CDA and the employees made the required contributions. The CDA made contributions of \$12,173 and \$226,980 to the PERS 1 and PERS 2/3 plans, respectively, for the year ended December 31, 2017.

In accordance with the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, the CDA recognized a net pension liability for its proportionate share of the DRS' collective net pension liabilities at June 30, 2017. The CDA recorded a total net pension liability of \$1,443,095 as of June 30, 2017, composed of \$758,785 and \$657,310 for PERS 1 and PERS 2/3, respectively, and representing its proportionate share of 0.017% and 0.019% of the collective net pension liability for PERS 1 and PERS 2/3, respectively. The CDA recognized pension expense totaling \$184,065 for the year ending December 31, 2017, composed of \$68,391 and \$115,674 for PERS 1 and PERS 2/3, respectively.

The total pension liability for each of the DRS plans was determined using various actuarial assumptions, including using a discount rate of 7.5% to measure the total pension liability. The table below presents the CDA's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the CDA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 957,236	\$ 758,785	\$ 637,271
PERS 2/3	<u>1,770,862</u>	<u>657,310</u>	<u>(255,081)</u>
Total	<u>\$ 2,728,098</u>	<u>\$ 1,443,095</u>	<u>\$ 382,190</u>

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2017

NOTE 5 – PENSION PLANS (Continued)

At December 31, 2017, the CDA reported total deferred outflows of resources related to pensions of \$303,079 and total deferred inflows of resources related to pensions of \$226,164 from the following sources:

	<u>PERS 1</u>	<u>PERS 2/3</u>
<u>Deferred Outflows:</u>		
Differences between expected and actual experience	\$ -	\$ 66,601
Changes of assumptions	-	6,982
Changes in proportionate share	-	98,613
Contributions subsequent to measurement date	<u>60,593</u>	<u>70,290</u>
Total deferred outflows	\$ 60,593	\$242,486
<u>Deferred Inflows:</u>		
Differences between expected and actual experience	\$ -	\$ 21,618
Net difference between projected and actual investment earnings	<u>29,323</u>	<u>175,223</u>
Total deferred inflows	\$ 29,323	\$196,841

Deferred outflows of resources of \$130,883 related to pensions resulting from CDA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other net amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows: 2018 – (\$64,423), 2019 – \$46,060, 2020 – (\$3,523), 2021 – (\$72,940), 2022 - \$17,764, thereafter - \$23,093.

NOTE 6 – RISK MANAGEMENT

The CDA carries comprehensive general liability, auto liability and employee benefit liability coverage with a limit of \$20 million per occurrence and no aggregate limit. Commercial property losses are covered up to the replacement cost on file with Enduris Washington (formerly the Washington Governmental Entity Pool). The CDA also carries Public Official Errors and Omissions liability coverage with a limit of \$20 million per occurrence and an aggregate limit of \$20 million. There were no occurrences in the last three years where the amount of settlements exceeded insurance coverage.

The CDA provides its eligible employees with a comprehensive benefits package provided through the Public Employees Benefits Board (PEBB); the package includes medical, dental, basic life, long-term disability coverage and other optional products.

NOTE 7 – UNEARNED REVENUES

In 2017 the CDA and King County continued their partnership in the Building for Culture program, a major cultural capital facility investment program of approximately \$26 million for 100 cultural facility projects in the region. King County issued bonds to finance the program, which is managed by the CDA. The CDA recognizes revenue as earned for this program to the extent that expenditures are incurred in the current fiscal year. Unexpended amounts for this program are recognized as unearned revenues in the government-wide and fund financial statements.

The following reflects the status of the Building for Culture capital program as of December 31, 2017:

Contracted with recipient, cash received from King County	\$ 25,885,716
Paid to recipients, 2016-2017	<u>(19,581,726)</u>
Unearned revenues, fund balance sheet, Building for Culture	6,303,990
1% for Art fund balance	<u>6,994,987</u>
Unearned revenues, g-w stmt of net position	<u>\$ 13,298,977</u>

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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Notes to Financial Statements
December 31, 2017

NOTE 8 – LONG-TERM DEBT AND CHANGES IN NONCURRENT LIABILITIES

The CDA recognizes a noncurrent liability on its government-wide statement of net position equal to the total of its future required intergovernmental payments to King County for the principal portion of debt service requirements on certain County bonds issued for cultural purposes. The Cultural Special Account Fund is the designated source of funds for all future debt service payments to King County.

In 2017, the CDA transferred \$2,166,450 to King County as payments for County debt service requirements, including \$1,235,000 for County bond principal and \$931,450 for County interest expense. Future scheduled payments to King County for County debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 1,255,000	\$ 915,948	\$ 2,170,948
2019	1,270,000	898,245	2,168,245
2020	1,290,000	875,450	2,165,450
2021	364,312	103,988	468,300
2022	202,823	97,177	300,000
2023-2027	1,174,368	325,632	1,500,000
2028-2030	<u>832,515</u>	<u>67,485</u>	<u>900,000</u>
Totals	<u>\$ 6,389,018</u>	<u>\$ 3,283,925</u>	<u>\$ 9,672,943</u>
Due within one year	<u>1,255,000</u>		
Due in more than one year	<u>\$ 5,134,018</u>		

The CDA also recognizes a noncurrent liability for compensated absences related to accrued vacation. Compensated absences are liquidated by the governmental fund in which an employee receiving the payment is budgeted, including the General Fund, the Lodging Tax Special Revenue Fund, and the 1% for Art Special Revenue Fund.

The following table summarizes the changes in noncurrent liabilities for the year ended December 31, 2017:

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/17</u>	<u>Due Within One Year</u>
Debt service to King County	\$ 7,624,018	\$ -	\$ (1,235,000)	\$6,389,018	\$1,255,000
Net pension liability	1,724,493	278,084	(559,482)	1,443,095	-
Compensated absences liability	<u>130,703</u>	<u>130,176</u>	<u>(114,833)</u>	<u>146,046</u>	<u>6,572</u>
Total noncurrent liabilities	<u>\$ 9,479,214</u>	<u>\$ 408,260</u>	<u>\$ (1,909,315)</u>	<u>\$7,978,159</u>	<u>\$1,261,572</u>

NOTE 9 – LEASES AND OTHER COMMITMENTS

Operating Leases

The CDA leases office space under a lease expiring June 30, 2034. 2017 lease expense for office space was \$149,751. Minimum annual lease payments for 2018 are approximately \$141,000 with two percent annual increases thereafter. In addition, the CDA leases office equipment under noncancelable leases with various expiration dates. 2017 lease expense for office equipment was \$8,630; future minimum annual lease payments are approximately \$9,000.

Contracts and Awards

Each year, the CDA awards numerous grants to local arts and heritage organizations through the Lodging Tax Revenues program. In addition, the CDA administers various other grants awarded by King County. The majority of these grants are reimbursement grants to the recipient for specific expenditures identified in the grant contract. Under generally accepted accounting principles, the CDA does not recognize a

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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Notes to Financial Statements
December 31, 2017

NOTE 9 – LEASES AND OTHER COMMITMENTS (Continued)

liability for these grants until the recipient organization has incurred the specified expenditures and invoiced the CDA. It is anticipated that all current outstanding awards will eventually be paid by the CDA. The total amount of outstanding awards and contracts at December 31, 2017 was \$3,952,776 for the Lodging Tax Revenues program and \$1,241,271 of other King County and CDA grants.

NOTE 10 – INTERFUND TRANSFERS

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Cultural Special Account Fund	Lodging Tax Special Revenue Fund	\$ 7,885,011
Cultural Special Account Fund	General Fund	2,767,851
Lodging Tax Special Revenue Fund	General Fund	509,189
1% for Art Special Revenue Fund	General Fund	127,278
General Fund	1% for Art Special Revenue Fund	154,943
Cultural Special Account Fund	1% for Art Special Revenue Fund	14,914
Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	12,500
Total Transfers		<u>\$11,471,686</u>

Transfers are used to move resources from a fund collecting them to the fund using them, as required by statute or budget, and to account for ongoing operating subsidies between funds in accordance with budget authorizations.

NOTE 11 – RESTRICTIONS AND COMPONENTS OF FUND BALANCE

Net Position

The government-wide financial statements utilize a net position presentation. All of the CDA's net position is classified as restricted because substantially all amounts are constrained for a specific purpose by enabling legislation or external resource providers.

Components of Fund Balance

The CDA's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

Nonspendable: Balances reflect current prepaid assets and interfund receivables that are not in a spendable form.

Restricted: Balances that are restricted for specific purposes by the constitution, enabling legislation, external resource providers, or laws or regulations of other governments.

Committed: Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the CDA Board of Directors.

Assigned: Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

Unassigned: Residual balances that are not contained in the other classifications.

When committed, assigned and unassigned fund balance are available for use for the same purpose, the CDA assumes that committed gets used first, then assigned and finally unassigned fund balance.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2017

NOTE 12 – OTHER DISCLOSURES

Related Parties

The CDA was formerly the Office of Cultural Resources (OCR), a King County agency, prior to commencing operations on January 1, 2003. The CDA is included as a discrete component unit in King County's annual financial statements. Significant transactions between the two entities include 1) the annual transfer of lodging tax revenues, one percent for art funds and other program support from King County to the CDA, and 2) annual debt service payments from the CDA to King County, as disclosed in the fund financial statements. The CDA reports the amounts of receivables due from King County for program support and unearned revenues from King County for the one percent for art program and Building for Culture program on its government-wide statement of net position.

Significant Revenue Concentration

The majority of the CDA's revenues are received from King County, including lodging tax and one percent for art revenues. Reduction or elimination of King County funding sources could have a substantial detrimental impact on the CDA operations. Current legislation temporarily discontinues the use of lodging tax receipts for cultural purposes in King County until 2021. The CDA has designated the Cultural Special Account Fund as the funding source for lodging tax program expenditures during this interim period. It is projected that lodging tax program expenditures will remain at current levels during this interim period.

Designation of Future Revenues

The CDA has designated annual cultural special account fund interest earnings to be the funding source for future debt service payments to King County. In the event that annual interest earnings on the special account are insufficient to meet future debt service requirements, the CDA has designated other expendable special account fund balances to be the source of debt service payments.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of CDA's Proportionate Share of Net Pension Liability

	2017		2016		2015	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
CDA's proportion of the net pension liability	0.016560%	0.018918%	0.016275%	0.016891%	0.015988%	0.016221%
CDA's proportionate share of the net pension liability	\$ 785,785	\$ 657,310	\$ 874,044	\$ 850,449	\$ 836,321	\$ 579,586
CDA's covered-employee payroll	\$ 931,591	\$1,080,664	\$ 908,084	\$ 959,322	\$ 848,220	\$ 834,105
CDA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	84.35%	60.82%	96.25%	88.65%	98.60%	69.49%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	90.97%	57.03%	85.82%	59.10%	89.20%

Schedule of CDA Contributions

	2017		2016		2015	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Contractually required contribution	\$ 110,718	\$ 128,435	\$ 101,524	\$ 107,252	\$ 85,884	\$ 84,454
Contribution in relation to the contractually required contribution	\$ 110,718	\$ 128,435	\$ 101,524	\$ 107,252	\$ 85,884	\$ 84,454
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CDA's covered-employee payroll	\$ 931,591	\$1,080,664	\$ 908,084	\$ 959,322	\$ 848,220	\$ 834,105
Contributions as a percentage of covered-employee payroll	11.88%	11.88%	11.18%	11.18%	10.13%	10.13%

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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