



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements Audit Report**  
**Cultural Development Authority of**  
**King County**  
**(4Culture)**

**For the period January 1, 2015 through December 31, 2015**

**Published January 26, 2017**

**Report No. 1018489**





**Office of the Washington State Auditor**  
**Pat McCarthy**

January 26, 2017

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,

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  
King County  
January 1, 2015 through December 31, 2015**

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 the 4Culture, a component unit of King County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated January 18, 2017. As discussed in Note 3 to the financial statements, during the year ended December 31, 2015, the Authority implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**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

January 18, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **4Culture King County January 1, 2015 through December 31, 2015**

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 the 4Culture, a component unit of King County, Washington, as of and for the year ended December 31, 2015, 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 the 4Culture, as of December 31, 2015, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Lodging Tax Special Revenue, 1 percent 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.

## **Matters of Emphasis**

As discussed in Note 3 to the financial statements, in 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **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 10 through 13 and pension plan information on page 28 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 January 18, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

January 18, 2017



## **FINANCIAL SECTION**

### **4Culture King County January 1, 2015 through December 31, 2015**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2015

General and Major Special Revenue Fund Budgetary Comparisons – 2015

Notes to Financial Statements – 2015

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Pension Trust Fund – 2015

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015

## 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, 2015. This information should be considered in conjunction with the CDA's financial statements and notes to the financial statements, which follow.

### FINANCIAL HIGHLIGHTS – 2015

As of December 31, 2015, the CDA's total net position was \$56.9 million, all of which was restricted and expendable for cultural programs. Total net position of the CDA increased by \$14.7 million, or 34.9%, for the year ended December 31, 2015. This increase was composed of \$23.1 million of total revenues and \$8.4 million of total expenses.

As of December 31, 2015, the CDA's total fund balances were \$63.6 million, including \$63.5 million restricted for specific purposes. Total fund balances of the CDA increased by \$16.7 million, or 35.5%, for the year ended December 31, 2015. This increase was composed of \$24.8 million of total fund revenues and \$8.1 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, liabilities 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 2015 are all classified as governmental activities, which are principally supported by intergovernmental revenues. The CDA reported no business-type activities in 2015, 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 2015 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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
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Management's Discussion and Analysis  
For the Year Ended December 31, 2015

balances for each of its funds. Each of these statements provides a reconciliation to the government-wide financial statements.

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, 2015, the total net position of the CDA was \$56,905,521, an increase of 34.9% over the net position of the previous year as restated. The entire net position was restricted and expendable for arts and culture programs.

	Net Position as of December 31,	
	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$45,160,034	\$24,140,097
Investments	17,209,664	23,075,930
Other assets	<u>2,603,165</u>	<u>417,719</u>
Total assets	<u>64,972,863</u>	<u>47,633,746</u>
Deferred Outflows	190,337	72,121
Liabilities:		
Current liabilities	5,614,334	3,267,219
Noncurrent liabilities	<u>2,442,867</u>	<u>2,244,360</u>
Total liabilities	<u>8,057,201</u>	<u>5,511,579</u>
Deferred Inflows	200,478	-
Net Position:		
Net investment in capital assets	-	-
Restricted for arts and cultural purposes	56,905,521	42,194,288
Unrestricted	<u>-</u>	<u>-</u>
Total net position	<u>\$56,905,521</u>	<u>\$42,194,288</u>

Other assets primarily include a \$2.2 receivable from King County for lodging tax revenues. Current liabilities include \$5.0 million of unearned revenues related to the One Percent (1%) for Art program. Noncurrent liabilities include \$1.4 million of net pension liability and \$0.9 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.

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 had historically increased in total each year through 2012 due to the required set-asides of annual lodging tax revenues to the Cultural Special Account Fund. Beginning in 2013 the restricted net position is expected to significantly decrease each year through 2020, except 2015, 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, 2015

Analysis of Changes in Net Position

The CDA's total net position increased \$14,711,233, or 34.9%, during 2015. The increase was primarily due to a one-time increase in lodging tax revenues. The following information reflects how the CDA's net position changed during the fiscal year.

	<u>2015</u>	<u>2014</u>
Revenues:		
Lodging tax revenues	\$ 21,916,753	\$ -
Program support from King County	846,645	2,443,839
Other program revenues	194,608	82,460
Investment earnings, net	<u>179,687</u>	<u>304,594</u>
Total revenues	<u>23,137,693</u>	<u>2,830,893</u>
Expenses:		
Culture and recreation program activities	<u>8,386,560</u>	<u>8,542,467</u>
Total expenses	<u>8,386,560</u>	<u>8,542,467</u>
Decrease in net position before transfers	<u>14,751,133</u>	<u>(5,711,574)</u>
Intergovernmental Payments:		
Payments to King County for County debt interest	<u>(39,900)</u>	<u>(48,525)</u>
Total transfers	<u>(39,900)</u>	<u>(48,525)</u>
Total increase (decrease) in net position	<u>\$ 14,711,233</u>	<u>\$(5,760,099)</u>

Program support from King County includes revenues for the One Percent (1%) for Art program, revenues for 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.

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.

Intergovernmental payments of \$39,900 to King County in 2015 were required payments for the interest portion of debt service requirements on County bonds issued for cultural purposes before December 31, 2002.

**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, 2015 were \$63.6 million, an increase of \$16.7 million (35.5%) over the fund balances of the previous year. Total fund balances included (1) \$1.7 million in the General Fund; (2) \$5.2 million in the Lodging Tax Special Revenue Fund; (3) \$4.6 million in the One Percent (1%) for Art Special Revenue Fund; and (4) \$52.1 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.

Total fund balances of the CDA increased by \$16.7 million for the year ended December 31, 2015. This increase was composed of (1) \$24.8 million of total fund revenues and (2) \$8.1 million of total fund expenditures. The net increase in total fund balances was primarily due to a one-time increase in lodging tax revenues.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
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Management's Discussion and Analysis  
For the Year Ended December 31, 2015

Total fund revenues of \$24.8 million in 2015 included (1) \$21.9 million of lodging tax revenues and (2) \$2.3 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 for culture and recreation activities of \$8.1 million in 2015 were for arts and cultural support, public art projects, and management and general supporting activities.

Significant interfund transfers included a \$7.5 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 \$1.9 excess of lodging tax revenues in the Cultural Special Account Fund due to the early payoff of King County Kingdom debt; (2) a \$0.6 million shortfall in General Fund revenues due to a delayed King County surplus property sale; (3) an under-expenditure of \$0.9 million for cultural programs in the General Fund primarily due to a delayed King County surplus property sale; (4) an under-expenditure of \$1.0 million for arts and cultural programs in the Lodging Tax Special Revenue Fund due to the timing of grant awards and payments; and (5) an under-expenditure of \$0.7 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 2016 government-wide statement of activities are expected to remain at 2015 levels in all categories except for (1) projected decrease of \$19.0 million in lodging tax revenues; (2) projected increase of \$18.3 million in program support from King County, primarily due to a major cultural facility initiative; (3) projected increase of \$19.9 million in expenses for culture program activities, primarily due to a major cultural facility initiative; and (4) projected increase of \$5.9 million of expenses due to the acquisition of bond debt for a major cultural facility initiative.

Revenues and expenses to be recognized in the 2016 fund financial statements are expected to remain at 2015 levels in all categories except for (1) projected decrease of \$19.0 million in lodging tax revenues; (2) projected increase of \$15.3 million in program support from King County, primarily due to a major cultural facility initiative; (3) projected increase of \$19.9 million in expenses for culture program activities, primarily due to a major cultural facility initiative; and (4) projected \$1.0 million increase of expenditures for debt service due to a major cultural facility initiative.

#### **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, 2015

	Governmental Activities	Total
ASSETS		
Cash and cash equivalents	45,160,034	45,160,034
Investments	17,209,664	17,209,664
Due from King County	2,187,634	2,187,634
Other current assets	61,633	61,633
Prepaid rent, noncurrent	353,898	353,898
Total assets	<u>64,972,863</u>	<u>64,972,863</u>
DEFERRED OUTFLOWS	190,337	190,337
LIABILITIES		
Accounts payable and other accrued liabilities	383,251	383,251
Unearned revenues	5,231,083	5,231,083
Noncurrent liabilities		
Due within one year	145,263	145,263
Due in more than one year	2,297,604	2,297,604
Total liabilities	<u>8,057,201</u>	<u>8,057,201</u>
DEFERRED INFLOWS	200,478	200,478
NET POSITION		
Net investment in capital assets	-	-
Restricted for culture and recreation purposes	56,905,521	56,905,521
Unrestricted	-	-
Total net position	<u><u>56,905,521</u></u>	<u><u>56,905,521</u></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, 2015

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	8,386,560	53,766	22,904,240	-	14,571,446
General revenues and transfers:					
Investment earnings					179,687
Payments to King County for debt service interest					(39,900)
Total general revenues and transfers					139,787
Change in net position					14,711,233
Net Position as restated - January 1, 2015					42,194,288
Net Position - December 31, 2015					56,905,521

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, 2015

	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	2,071,317	5,408,160	5,008,416	32,672,141	45,160,034
Investments	-	-	-	17,209,664	17,209,664
Due from a primary government	-	-	-	2,187,634	2,187,634
Other current assets	50,594	10,726	313	-	61,633
TOTAL ASSETS	<u>2,121,911</u>	<u>5,418,886</u>	<u>5,008,729</u>	<u>52,069,439</u>	<u>64,618,965</u>
LIABILITIES					
Accounts payable	74,618	138,395	9,540	-	222,553
Payroll and other accrued liabilities	45,610	100,256	14,832	-	160,698
Unearned Revenues	246,726	-	381,831	-	628,557
Total Liabilities	<u>366,954</u>	<u>238,651</u>	<u>406,203</u>	<u>-</u>	<u>1,011,808</u>
FUND BALANCES					
Nonspendable	30,265	10,726	313	-	41,304
Restricted	1,724,692	5,169,509	4,602,213	52,069,439	63,565,853
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>1,754,957</u>	<u>5,180,235</u>	<u>4,602,526</u>	<u>52,069,439</u>	<u>63,607,157</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>2,121,911</u>	<u>5,418,886</u>	<u>5,008,729</u>	<u>52,069,439</u>	<u>64,618,965</u>

Reconciliation of total governmental fund balances to net position:

Total fund balances	63,607,157
Certain public art unearned revenues are not due and payable in the current period and are not reported on the fund balance sheet	(4,602,526)
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	(2,442,867)
Deferred outflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	190,337
Deferred inflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	(200,478)
Noncurrent prepaid rent is not a current financial resource and is not reported on the fund balance	353,898
Total net position of governmental activities	<u>56,905,521</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, 2015

	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	246,726	-	2,271,105	-	2,517,831
Lodging Tax Gross Receipts	-	-	-	21,916,753	21,916,753
Investment Earnings	2,663	13,925	6,258	156,841	179,687
Miscellaneous	58,975	35,061	100,572	-	194,608
Total Revenues	<u>308,364</u>	<u>48,986</u>	<u>2,377,935</u>	<u>22,073,594</u>	<u>24,808,879</u>
EXPENDITURES					
Culture and recreation program activities	1,318,215	5,975,481	651,872	-	7,945,568
Payments to King County for debt service	-	179,900	-	-	179,900
Total Expenditures	<u>1,318,215</u>	<u>6,155,381</u>	<u>651,872</u>	<u>-</u>	<u>8,125,468</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,009,851)</u>	<u>(6,106,395)</u>	<u>1,726,063</u>	<u>22,073,594</u>	<u>16,683,411</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	1,064,853	7,526,103	-	-	8,590,956
Interfund transfers out	-	(479,230)	(54,877)	(8,056,849)	(8,590,956)
Total Other Financing Sources (uses)	<u>1,064,853</u>	<u>7,046,873</u>	<u>(54,877)</u>	<u>(8,056,849)</u>	<u>-</u>
Net changes in fund balances	55,002	940,478	1,671,186	14,016,745	16,683,411
Fund Balances - January 1, 2015	1,699,955	4,239,757	2,931,340	38,052,694	46,923,746
Fund Balances - December 31, 2015	<u>1,754,957</u>	<u>5,180,235</u>	<u>4,602,526</u>	<u>52,069,439</u>	<u>63,607,157</u>

Reconciliation of changes in fund balances to changes in net position:

Net change in fund balances - total governmental funds 16,683,411

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 (1,671,186)

Certain net pension liability changes reduce net position but do not decrease current financial resources of funds (406,436)

Payments to King County for principal debt service consume current financial resources of funds but do not affect net position 140,000

Certain compensated absences liability changes reduce net position but do not decrease current financial resources of funds (14,333)

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 14,711,233

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, 2015

	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	890,661	246,726	(643,935)	-	-	-	2,287,500	2,271,105	(16,395)	-	-	-
Lodging Tax Gross Receipts	-	-	-	-	-	-	-	-	-	20,000,000	21,916,753	1,916,753
Investment Earnings	-	2,663	2,663	5,000	13,925	8,925	5,000	6,258	1,258	129,786	156,841	27,055
Miscellaneous	30,000	58,975	28,975	-	35,061	35,061	-	100,572	100,572	-	-	-
Total Revenues	920,661	308,364	(612,297)	5,000	48,986	43,986	2,292,500	2,377,935	85,435	20,129,786	22,073,594	1,943,808
EXPENDITURES												
Culture and recreation program activities	2,207,621	1,318,215	889,406	7,030,950	5,975,481	1,055,469	1,349,673	651,872	697,801	-	-	-
Payments to King County for debt service	-	-	-	179,900	179,900	-	-	-	-	-	-	-
Total Expenditures	2,207,621	1,318,215	889,406	7,210,850	6,155,381	1,055,469	1,349,673	651,872	697,801	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(1,286,960)	(1,009,851)	277,109	(7,205,850)	(6,106,395)	1,099,455	942,827	1,726,063	783,236	20,129,786	22,073,594	1,943,808
OTHER FINANCING SOURCES (USES)												
Interfund transfers in	1,081,913	1,064,853	(17,060)	7,526,103	7,526,103	-	-	-	-	-	-	-
Interfund transfers out	-	-	-	(494,585)	(479,230)	15,355	(56,583)	(54,877)	1,706	(8,056,849)	(8,056,849)	(0)
Total Other Financing Sources (uses)	1,081,913	1,064,853	(17,060)	7,031,518	7,046,873	15,355	(56,583)	(54,877)	1,706	(8,056,849)	(8,056,849)	(0)
Net changes in fund balances	(205,047)	55,002	260,049	(174,332)	940,478	1,114,810	886,244	1,671,186	784,942	12,072,937	14,016,745	1,943,808

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
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Notes to Financial Statements  
December 31, 2015

**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 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 Pl 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 2015.

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.

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2015 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 is 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.

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  
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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.

Capital Assets and Noncurrent Prepaid Rent (See Note 5) - Capital assets are recorded at historical costs; the CDA capitalizes items with a value of \$10,000 or more. 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 for which the revenue recognition criteria have not been met. The CDA recognizes revenue as earned for this program 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. Unused sick leave is forfeited upon termination of employment. All vacation pay liability is accrued in the government-wide financial statements.

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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**NOTE 3 – ACCOUNTING AND REPORTING CHANGES**

The CDA implemented Government Accounting Standards Board Statement No. 68 in 2015, a new accounting standard related to accounting and financial reporting for pensions, which resulted in a prior period adjustment as follows:

Net Position as previously reported at December 31, 2014	\$ 43,213,900
Prior period adjustment – Implementation of GASB 68:	
Net pension liability (June 30, 2014 measurement date)	(1,091,733)
Deferred outflows – Employer contributions made between July 1 and December 31, 2014	<u>72,121</u>
Total prior period adjustment	<u>(1,019,612)</u>
Net Position as restated, January 1, 2015	<u>\$ 42,194,288</u>

**NOTE 4 – 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 fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC); accordingly, the CDA has no custodial credit risk for its deposits. Carrying amounts of deposits for book purposes are materially the same as bank balances.

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 is also authorized to invest in the Washington State Local Government Investment Pool (LGIP), which is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. The LGIP funds are limited to high quality obligations with limited maximum and average maturities, with the effect of minimizing both market and credit risk.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
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**NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)**

All investment securities are recorded at fair value based on fair value reports provided by the CDA's investment trustee. 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, 2015:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Average Interest Rate</u>	<u>Effective Duration(Yrs)</u>
Washington State LGIP	\$ 43,939,079	\$ 43,939,079	0.25%	0.003
U.S. Treasury Notes	8,575,295	8,177,880	3.21%	2.429
Federal Home Loan Mortgage Corp Notes	900,919	866,140	4.59%	2.250
Federal National Mortgage Assn Notes	2,335,534	2,315,845	4.99%	0.907
Federal Home Loan Bank Bonds	2,857,686	2,724,352	4.19%	3.564
Federal Farm Credit Bank Bonds	669,013	630,447	4.36%	2.162
Other / Money Market Fund	<u>1,871,217</u>	<u>1,871,217</u>	<u>0.03%</u>	<u>0.003</u>
Subtotals	<u>\$ 61,148,743</u>	<u>\$ 60,524,960</u>	<u>1.13%</u>	<u>0.601</u>
Less WA State LGIP (cash equivalent)	<u>(43,939,079)</u>			
Total investments per Stmt of Net Position	<u>\$ 17,209,664</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, 2015, the combined weighted average effective duration of the CDA's portfolio was 0.601 years.

**Credit risk** - Credit risk is the risk that an issuer will not fulfill its obligations. At December 31, 2015 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, 2015, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: WA State Local Government Investment Pool – 72%, and U.S. Treasury Obligations – 14%.

**NOTE 5 – CAPITAL ASSETS AND NONCURRENT PREPAID RENT**

The CDA had no net capital asset activity or balances in 2015.

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, 2015:

Prepaid rent, original cost	\$ 583,089
Accumulated amortization	<u>(208,971)</u>
Net book value	<u>\$ 374,118</u>
Current portion	<u>(20,220)</u>
Prepaid rent, noncurrent	<u>\$ 353,898</u>



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**NOTE 6 – 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. Benefits and vesting requirements vary by plan. Additional information for the plans is included in the DRS' publicly available Comprehensive Annual Financial Report.

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 11.18% as of December 31, 2015 for all plans. The required employee contribution rate as of December 31, 2015 is 6% for Plan 1, 4.92% 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's total required contributions for all plans for the years ended December 31, 2015 and 2014 were \$173,942 (Plan 1: \$19,284; Plan 2: \$109,688, Plan 3: \$44,970) and \$145,289 (Plan 1: \$16,220; Plan 2: \$97,955, Plan 3: \$31,114), respectively.

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, 2015. The CDA recorded a total net pension liability of \$1,415,907 as of June 30, 2015, composed of \$836,321 and \$579,586 for PERS 1 and PERS 2/3, respectively, and representing its proportionate share of 0.016% and 0.016% of the collective net pension liability for PERS 1 and PERS 2/3, respectively. The CDA recognized pension expense totaling \$580,378 for the year ending December 31, 2015, composed of \$90,681 and \$489,697 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	\$ 1,018,223	\$ 836,321	\$ 680,701
PERS 2/3	1,694,738	579,586	(274,245)
Total	<u>\$ 2,712,961</u>	<u>\$ 1,415,907</u>	<u>\$ 406,456</u>

At December 31, 2015, the CDA reported deferred outflows of resources and deferred inflows of resources related to pensions of \$190,337 and \$200,478, respectively. The deferred outflows were primarily due to contributions subsequent to the measurement date and differences between expected and actual experience. The deferred inflows were due to net differences between projected and actual investment earnings on pension plan investments. Deferred outflows of resources of \$95,473 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, 2016. Other net amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows: 2016 – (\$50,506), 2017 – (\$50,506), 2018 – (\$50,506), 2019 - \$45,904.



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**NOTE 7 – RISK MANAGEMENT**

The CDA carries comprehensive general liability, auto liability and employee benefit liability coverage with a limit of \$10 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 \$10 million per occurrence and an aggregate limit of \$10 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 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 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. Per KCC 4.42.025, the source of funds for the required intergovernmental payments from the CDA to King County is annual lodging tax revenues. Legislation providing for the use of lodging tax revenues in King County for cultural purposes expired at the end of 2012. The Cultural Special Account Fund is the designated source of funds for debt service payments to King County in 2016-2021.

In 2015, the CDA transferred \$179,900 to King County as payments for County debt service requirements, including \$140,000 for County bond principal and \$39,900 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>
2016	\$ 140,000	\$ 32,900	\$ 172,900
2017	140,000	27,300	167,300
2018	150,000	22,200	172,200
2019	155,000	16,100	171,100
2020	160,000	9,800	169,800
2021	165,000	3,300	168,300
Totals	<u>\$ 910,000</u>	<u>\$ 111,600</u>	<u>\$ 1,021,600</u>
Due within one year	<u>140,000</u>		
Due in more than one year	<u>\$ 770,000</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, 2015:

	<u>Balance 01/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/15</u>	<u>Due Within One Year</u>
Debt service to King County	\$ 1,050,000	\$ -	\$ (140,000)	\$ 910,000	\$ 140,000
Net pension liability	1,091,733	396,295	(72,121)	1,415,907	-
Compensated absences liability	<u>102,627</u>	<u>113,585</u>	<u>(99,252)</u>	<u>116,960</u>	<u>5,263</u>
Total noncurrent liabilities	<u>\$ 2,244,360</u>	<u>\$ 509,880</u>	<u>\$ (311,373)</u>	<u>\$ 2,442,867</u>	<u>\$ 145,623</u>

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**NOTE 9 – LEASES AND OTHER COMMITMENTS**

Operating Leases

The CDA leases office space under a lease expiring June 30, 2034. 2015 lease expense for office space was \$142,567. Minimum annual lease payments for 2016 are approximately \$136,000 with two percent annual increases thereafter. In addition, the CDA leases office equipment under noncancelable leases with various expiration dates. 2015 lease expense for office equipment was \$7,780; future minimum annual lease payments are approximately \$7,800.

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 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, 2015 was \$3,791,039 for the Lodging Tax Revenues program and \$1,259,506 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	\$ 7,526,103
Cultural Special Account Fund	General Fund	530,746
Lodging Tax Special Revenue Fund	General Fund	479,230
1% for Art Special Revenue Fund	General Fund	54,877
Total Transfers		<u>\$ 8,590,956</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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
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**NOTE 11 – RESTRICTIONS AND COMPONENTS OF FUND BALANCE (Continued)**

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.

**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 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

As noted in Note 8, the source of funds for required intergovernmental payments from the CDA to King County is annual lodging tax revenues. Legislation providing for the use of lodging tax revenues in King County for cultural purposes expired at the end of 2012. 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 unanticipated 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

## Cultural Development Authority of King County dba 4Culture

### Schedule of CDA's Proportionate Share of Net Pension Liability

	June 30, 2015	
	PERS 1	PERS 2/3
CDA's proportion of the net pension liability	0.015988%	0.016221%
CDA's proportionate share of the net pension liability	\$ 836,321	\$ 579,586
CDA's covered-employee payroll	\$ 189,255	\$ 1,518,617
CDA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	441.90%	38.17%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	89.20%

### Schedule of CDA Contributions

	December 31, 2015	
	PERS 1	PERS 2/3
Contractually required contribution	\$ 19,284	\$ 154,658
Contribution in relation to the contractually required contribution	\$ 19,284	\$ 154,658
Contribution deficiency (excess)	\$ -	\$ -
CDA's covered-employee payroll	\$ 189,255	\$ 1,518,617
Contributions as a percentage of covered-employee payroll	10.19%	10.18%

## 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.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>