

Washington State Auditor's Office
Financial Statements Audit Report

**Cultural Development Authority of King
County
(4Culture)**

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004623

Issue Date
November 29, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 29, 2010

Board of Directors
4Culture
Seattle, Washington

Report on Financial Statements

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
January 1, 2009 through December 31, 2009**

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Schedule of Audit Findings and Responses

4Culture King County January 1, 2009 through December 31, 2009

1. **The Cultural Development Authority of King County should improve its internal controls over financial statement preparation.**

Background

Authority management, the state Legislature, state and federal agencies and bondholders rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the Authority management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Controls must ensure that financial data is reliably authorized, processed and reported. Our audit identified significant deficiencies in controls that adversely affect the Authority's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding.

The Authority, a component unit of King County, is responsible for managing programs previously administered by the county's Office of Cultural Resources. In 2009 the Authority received \$10.7 million in revenue.

Description of Condition

The following internal controls weaknesses which, when taken together, represent a significant deficiency:

- Authority employees do not have adequate technical knowledge to accurately prepare the Authority's financial statements in accordance with applicable reporting requirements. As a result, the Authority contracts for outside professional accounting services to prepare its financial report package. The Authority's management and governing body remain responsible for ensuring the financial statement preparation meets all accounting standards with regards to preparation; however, the Authority does not have an internal process for meeting this responsibility.
- The Authority's contracted accountant makes adjusting entries to the Authority's financial records as part of the financial statement preparation process. Authority employees do not provide adequate oversight for the year-end adjustments to ensure they are valid and posted to the correct accounts in the appropriate amounts.

- The Authority did not consult appropriate governmental accounting guidance contained in the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor when making decisions related to accounting for and reporting certain transactions.

Cause of Condition

The Authority has not appropriately designed its process or provided the necessary training for employees involved with overseeing the preparation and review of its annual financial statements.

Effect of Condition

Our audit noted the following errors and omissions in the financial statement package:

1. Financial Statements:
 - a. General fund revenues were overstated and receivables overstated by \$140,050 due to irregular accounting for grant revenues.
 - b. General fund expenditures were understated and payables overstated by \$38,115 due to irregular accounting Public Art Expenditures.
 - c. Accrued compensated absences is a noncurrent liability, which was omitted from the government-wide statement of net assets and reconciliation in the fund financial balance sheets. \$75,090 was misclassified as current liabilities and omitted from required note disclosures.
 - d. Fund balance amounts were misclassified for the Lodging Tax and One Percent for Art special revenue funds. The Authority did not reserve fund balance related to noncurrent inter-fund loans. The related amounts are \$322,870 and \$173,853, respectively.
 - e. The budgetary comparison statements did not identify original and final amended budget
2. Notes to the financial statements:
 - a. Notes related to cash and investments, pensions, long-term debt and descriptions of governmental funds disclosures were not drafted in the appropriate format and were missing key pieces of information.
 - b. Notes for risk management, pledges of future investment revenues, inter-fund balances and transfers and long-term inter-fund loans were missing. Disclosures for pledges of future investment revenues should address funding of debt service obligations when the lodging taxes expire and also address what happens should the pledged investment revenues be inadequate. Disclosures for inter-fund balances and transfers should include a description of the inter-fund loan between the General Fund and the Lodging Tax and One Percent for Art funds identifying the authorizing resolution, the purpose for the loan and terms of the loan, interest paid, length of loan, etc.

- c. The notes included unnecessary disclosures regarding tax status and restricted assets that were not consistent with Generally Accepted Accounting Principles (GAAP).

3. Management Discussion and Analysis

The content of the management's discussion and analysis did not address elements required by GAAP. Reasons for significant changes in fund balances for governmental funds were not addressed. Information was not provided regarding significant limitation on the future use of endowment fund resources.

Some of the errors and omissions were corrected in the financial statement package. The uncorrected amounts involved did not have a material effect on the financial statements. However, these deficiencies in internal controls make it reasonably possible that more serious misstatements could occur and not be prevented, or detected and corrected, by the Authority in the future.

Recommendation

We recommend the Authority provide appropriate training to employees to enable them to:

- Effectively oversee preparation and review of the financial statement package.
- Ensure funds are accounted for properly and effectively oversee year-end adjustments used to prepare the financial statements.
- Effectively apply professional guidance in their financial package review, such as the BARS manual, to detect and correct misstatement, misclassification and omission errors in the financial statements.

Authority's Response

The Cultural Development Authority of King County (CDA), dba 4Culture, is committed to excellence in its financial reporting and stewardship of public funds. The CDA acknowledges that it is the responsibility of its management and governing body to ensure that its financial statements meet all accounting standards and to design and implement internal controls that provide reasonable assurance that financial information is accurately authorized, processed and reported. Since commencing operations in 2003, the CDA has implemented accounting policies, procedures and systems in order to effectively manage its operations and provide timely and accurate financial reporting. The CDA believes it has been successful in these efforts, as evidenced in part by its six consecutive years (2003-2008) of financial statement and accountability audits without a finding. Based on this record the CDA believes that its internal controls are such that there is only a remote likelihood that a misstatement of its financial statements that is more than inconsequential will not be prevented or detected; accordingly, we respectfully disagree with the classification of the identified condition as a significant deficiency in internal control.

In response to the State Auditor's recommendations, the CDA will further improve its internal controls by providing appropriate additional training to employees to further enable them to oversee, review, and apply professional guidance in the preparation and

presentation of the financial statement package. As noted in the Auditor's report, the noted effects of the condition did not have a material effect on the financial statements. The CDA reviewed and noted effects and concurs that they did not have a material effect on the financial statements. In response to the noted effects, the accompanying financial statements include 1) a \$130,249 adjustment to reduce revenues and receivables in response to item 1a (resulting in an immaterial 0.26% reduction in total assets), and 2) various amendments to the management, discussion and analysis and notes to the financial statements to provide improved and more complete reporting.

We thank the State Auditor for its assistance and recommendations and look forward to our continued work together.

Auditor's Remarks

We thank the Authority for its cooperation and assistance during the audit. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, January 2007 Revision - Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected . . .

b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

4Culture
King County
January 1, 2009 through December 31, 2009

Board of Directors
4Culture
Seattle, Washington

We have audited the financial statements of the governmental activities and each major fund of 4Culture, King County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 4, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Responses as Finding 1 that we consider to be significant deficiencies in internal

control over financial reporting. 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management and the Board of Directors. 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

November 4, 2010

Independent Auditor's Report on Financial Statements

4Culture King County January 1, 2009 through December 31, 2009

Board of Directors
4Culture
Seattle, Washington

We have audited the accompanying financial statements of the governmental activities and each major fund of 4Culture, King County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements as listed on page 10. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2009, and the respective changes in financial position, and the respective budgetary comparison for the General, Lodging Tax and One Percent for Art funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and the last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 4, 2010

Financial Section

**4Culture
King County
January 1, 2009 through December 31, 2009**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2009

Statement of Activities – 2009

Balance Sheet – Governmental Funds – 2009

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental
Funds – 2009

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget To
Actual Comparison – 2009

Notes to Financial Statements – 2009

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2009

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, 2009. This information should be considered in conjunction with the CDA's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS – 2009

As of December 31, 2009, the CDA's total net assets were \$38.4 million, including \$18.4 million of restricted net assets expendable for programs, \$22.9 million of nonexpendable net assets restricted for an endowment, and a \$2.9 million deficit in unrestricted net assets. As of December 31, 2009, the CDA's total fund balances were \$48.3 million, including \$30.3 million reserved for encumbrances and an endowment.

Total net assets of the CDA increased by \$1.6 million for the year ended December 31, 2009. This increase was composed of \$11.0 million of total revenues, \$9.3 million of total expenses, and \$0.1 million of intergovernmental payments to King County. Total fund balances of the CDA increased by \$2.5 million for the year ended December 31, 2009. This increase was composed of \$12.3 million of total fund revenues, \$9.2 million of total fund expenditures, and \$0.6 million of intergovernmental payments to King County.

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 assets provides information about the CDA's financial position, including assets, liabilities and net assets, 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 assets changed during the fiscal year. Over time, increase or decreases in the CDA's net assets 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 2009 are all classified as governmental activities, which are principally supported by intergovernmental revenues. The CDA reported no business-type activities in 2009, which are intended to recover all or a significant portion of their costs through user fees and charges to external users of services.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 Management's Discussion and Analysis
 For the Year Ended December 31, 2009

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 2009 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 combining balance sheet and combining statement of revenues, expenditures, and changes in fund balances for 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 Assets

At December 31, 2009, total net assets of the CDA were \$38,435,790, an increase of 4.4% over net assets at the end of 2008. Net assets included \$18,420,746 of restricted net assets expendable for programs; \$22,890,508 of nonexpendable net assets restricted for an endowment; and a \$2,875,464 deficit in unrestricted net assets.

	Net Assets as of December 31,	
	<u>2009</u>	<u>2008</u>
Assets:		
Cash and cash equivalents	\$ 9,679,805	\$12,785,374
Investments	37,900,424	32,140,767
Other assets	<u>1,713,849</u>	<u>1,858,590</u>
Total assets	<u>49,294,078</u>	<u>46,784,731</u>
Liabilities:		
Current liabilities	7,982,824	6,691,286
Noncurrent liabilities	<u>2,875,464</u>	<u>3,286,300</u>
Total liabilities	<u>10,858,288</u>	<u>9,977,586</u>
Net Assets:		
Invested in capital assets, net of related debt	-	-
Restricted		
Expendable	18,420,746	20,021,818
Nonexpendable	22,890,508	20,071,627
Unrestricted	<u>(2,875,464)</u>	<u>(3,286,300)</u>
Total net assets	<u>\$38,435,790</u>	<u>\$36,807,145</u>

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 Management's Discussion and Analysis
 For the Year Ended December 31, 2009

Other assets primarily include a receivable from King County for lodging tax revenues. Current liabilities include \$7.5 million of unearned revenues related to the One Percent for Art program. Noncurrent liabilities represent 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 expendable net assets are the result of timing differences between the recognition of individual programs' revenues and their related expenditures. Nonexpendable net assets will increase each year due to transfers of restricted annual lodging tax revenues to the endowment fund. The deficit in unrestricted net assets, which corresponds to noncurrent liabilities for future required intergovernmental payments to King County for County debt service, is the result of the CDA having long-term commitments that are greater than currently available resources. The deficit in unrestricted net assets will decrease each year as the CDA makes the required intergovernmental payments to King County for County debt service.

Analysis of Changes in Net Assets

The CDA's total net assets increased \$1,628,645, or 4.4%, during 2009. The following information reflects how the CDA's net assets changed during the fiscal year.

	<u>2009</u>	<u>2008</u>
Revenues:		
Lodging tax revenues	\$ 8,432,773	\$10,966,709
Program support from King County	1,689,438	2,313,510
Other program revenues	473,238	157,603
Investment earnings, net	<u>440,423</u>	<u>2,996,664</u>
Total revenues	<u>11,035,872</u>	<u>16,434,486</u>
Expenses:		
Arts and cultural support	6,844,600	5,987,659
Public art projects	1,897,251	2,073,218
Management and general supporting activities	<u>509,707</u>	<u>485,655</u>
Total expenses	<u>9,251,558</u>	<u>8,546,532</u>
Increase in net assets before transfers	<u>1,784,314</u>	<u>7,887,954</u>
Intergovernmental Payments:		
Payments to King County for County debt interest	<u>(155,669)</u>	<u>(173,118)</u>
Total transfers	<u>(155,669)</u>	<u>(173,118)</u>
Total increase in net assets	<u>\$ 1,628,645</u>	<u>\$ 7,714,836</u>

Program support from King County includes revenues for the One Percent 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.

Arts and cultural support expense amounts and allocations are incurred in accordance with requirements specified in the King County Code. Public art projects expenses are partially dependent on the timing of King County construction projects.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2009

Intergovernmental payments of \$155,669 to King County in 2009 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 CDA's total governmental fund balances at December 31, 2009 were \$48.3 million, including (1) \$1.8 million in the general fund; (2) \$7.4 million in the lodging tax special revenue fund; (3) \$7.5 million in the 1% for art special revenue fund; and (4) \$31.6 million in the cultural endowment fund. Approximately 63% (\$30.3 million) of the total fund balance is reserved to indicate that it is not available for new spending due to certain legal restrictions on its use.

Total fund balances of the CDA increased by \$2.5 million for the year ended December 31, 2009. This increase was composed of (1) \$12.3 million of total fund revenues; (2) \$9.2 million of total fund expenditures; and (3) \$0.6 million of intergovernmental payments to King County.

Total fund revenues of \$12.3 million in 2009 included (1) \$8.4 million of program revenues for lodging tax receipts from King County; (2) \$2.7 million of program revenues from King County for the One Percent for Art program; (3) \$0.3 million of other KC grants and program support; and (4) \$0.4 million of net investment earnings. Other revenues included fees from consulting services and grants and contributions from other sources.

Total expenditures of \$9.2 million in 2009 included (1) \$6.8 million for arts and cultural support and other program expenses; (2) \$1.9 million for public art projects; and (3) \$0.5 million for management and general supporting activities.

Intergovernmental payments of \$0.6 million to King County in 2009 were required payments for the principal and interest portion of debt service requirements on County bonds issued for cultural purposes before December 31, 2002. Significant interfund transfers included a \$3.4 million transfer from the lodging tax special revenue fund to the cultural endowment fund for 40% of the total current year lodging tax receipts.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Revenues and expenses to be recognized in the 2010 government-wide statement of activities are expected to remain at 2009 levels in all categories except for (1) projected increase of \$2.0 million in program revenues from King County for the One Percent for Art program; (2) projected increase of \$1.0 million in investment earnings; (3) projected decrease of \$1.0 million in expenditures for arts and cultural support and other program expenses; and (4) projected increase of \$1.3 million in expenditures for public art projects.

Revenues and expenses to be recognized in the 2010 fund financial statements are expected to remain at 2009 levels in all categories except for (1) projected decrease of \$1.0 million in program revenues from King County for the One Percent for Art program; (2) projected increase

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2009

of \$1.0 million in investment earnings; (3) projected decrease of \$1.0 million in expenditures for arts and cultural support and other program expenses; and (4) projected increase of \$1.3 million in expenditures for public art projects.

The CDA relies heavily on King County support to accomplish its mission and programs. Reduction or elimination of King County funding sources such as lodging tax receipts could have a substantial detrimental impact on the CDA operations. No such reductions are anticipated in 2010; however, legislation providing for the use of lodging tax receipts for cultural purposes in King County is currently scheduled to expire in 2012. The CDA is actively involved in legislative efforts to extend the use of lodging tax receipts for cultural purposes, and is actively involved in strategic planning efforts in preparation for any potential revenue declines.

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 ASSETS
 DECEMBER 31, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,679,805	\$ -	\$ 9,679,805
Due from King County	1,082,116	-	1,082,116
Receivables and other assets, net	631,733	-	631,733
Investments	37,900,424	-	37,900,424
Total assets	49,294,078	-	49,294,078
LIABILITIES			
Accounts payable and other accrued liabilities	494,772	-	494,772
Unearned revenues	7,488,052	-	7,488,052
Noncurrent liabilities			
Due within one year	432,667	-	432,667
Due in more than one year	2,442,797	-	2,442,797
Total liabilities	10,858,288	-	10,858,288
NET ASSETS			
Invested in capital assets, net of related debt	-	-	-
Restricted			
Expendable	18,420,746	-	18,420,746
Nonexpendable	22,890,508	-	22,890,508
Unrestricted	(2,875,464)	-	(2,875,464)
Total net assets	\$ 38,435,790	\$ -	\$ 38,435,790

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, 2009

Program	Expenses	Program Revenues			Net Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental Activities:					
Arts and cultural programs	\$ 9,251,558	\$ 211,313	\$ 10,384,136	\$ -	\$ 1,343,891
General revenues and transfers:					
Investment earnings					440,423
Payments to King County for debt service interest					(155,669)
Total general revenues and transfers					284,754
Change in net assets					1,628,645
Net Assets - January 1, 2009					36,807,145
Net Assets - December 31, 2009					\$ 38,435,790

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, 2009

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Endowment Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,362,009	\$ 1,166,413	\$ 1,722,713	\$ 4,428,670	\$ 9,679,805
Receivable, net & other	82,787	40,773	992	-	124,552
Due from a primary government	-	969,524	112,592	-	1,082,116
Interfund Receivable/Payable	-	-	173,853	387,483	561,336
Investments	-	5,542,161	5,560,048	26,798,215	37,900,424
TOTAL ASSETS	<u>\$ 2,444,796</u>	<u>\$ 7,718,871</u>	<u>\$ 7,570,198</u>	<u>\$ 31,614,368</u>	<u>\$ 49,348,233</u>
LIABILITIES					
Accounts payable	\$ 52,251	\$ 146,162	\$ 38,293	\$ -	\$ 236,706
P/R and other accrued liabilities	145,972	68,241	43,853	-	258,066
Contracts payable	-	-	-	-	-
Interfund Payable	496,723	64,613	-	-	561,336
Total Liabilities	<u>694,946</u>	<u>279,016</u>	<u>82,146</u>	<u>-</u>	<u>1,056,108</u>
FUND BALANCES					
Reserved - Encumbrances	1,749,850	4,310,065	1,361,272	-	7,421,187
Reserved - Endowment	-	-	-	22,890,508	22,890,508
Unreserved - Designated	-	3,129,790	3,655,819	-	6,785,609
Unreserved - Undesignated	-	-	2,470,961	8,723,860	11,194,821
Total Fund Balances	<u>1,749,850</u>	<u>7,439,855</u>	<u>7,488,052</u>	<u>31,614,368</u>	<u>48,292,125</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,444,796</u>	<u>\$ 7,718,871</u>	<u>\$ 7,570,198</u>	<u>\$ 31,614,368</u>	<u>\$ 49,348,233</u>

Reconciliation of total governmental fund balances to net assets:

Total fund balances	\$ 48,292,125
Noncurrent liabilities are not due and payable in the current period and are not reported on the fund balance sheet	(2,875,464)
Public art unearned revenues are not due and payable in the current period and are not reported on the fund balance sheet	(7,488,052)
Capital assets and long-term prepaid rent are not current financial resources and are not reported on the fund balance sheet	507,181
Total net assets of governmental activities	<u>\$ 38,435,790</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, 2009

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Endowment Fund	Total Governmental Funds
REVENUES					
Program Support from King County	\$ 264,379	\$ -	\$ 2,660,048	\$ -	\$ 2,924,427
Lodging Tax Gross Receipts	-	8,432,773	-	-	8,432,773
Investment Earnings	17,657	100,972	112,045	209,749	440,423
Miscellaneous	343,412	132,176	150	-	475,738
Total Revenues	625,448	8,665,921	2,772,243	209,749	12,273,361
EXPENDITURES					
Arts and cultural program activities	1,472,145	5,355,892	-	-	6,828,037
Public art program activities	374,487	-	1,512,879	-	1,887,366
Management and general supporting	503,949	-	-	-	503,949
Total Expenditures	2,350,581	5,355,892	1,512,879	-	9,219,352
Excess (deficiency) of revenues over (under) expenditures	(1,725,133)	3,310,029	1,259,364	209,749	3,054,009
OTHER FINANCING SOURCES (USES)					
Payments to King County for debt service	-	(566,505)	-	-	(566,505)
Interfund transfers in (out)	1,247,813	(4,599,047)	(21,875)	3,373,109	-
Total Other Financing Sources (uses)	1,247,813	(5,165,552)	(21,875)	3,373,109	(566,505)
Net changes in fund balances	(477,320)	(1,855,523)	1,237,489	3,582,858	2,487,504
Fund Balances - January 1, 2009	2,227,170	9,295,378	6,250,563	28,031,510	45,804,621
Fund Balances - December 31, 2009	\$ 1,749,850	\$ 7,439,855	\$ 7,488,052	\$ 31,614,368	\$ 48,292,125

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

Net change in fund balances - total governmental funds	\$ 2,487,504
Payments to King County for principal debt service consume current financial resources of funds but do not affect net assets	410,836
Depreciation of capital assets and amortization of prepaid rent reduce net assets but do not consume current financial resources of funds	(32,206)
Public art fund balances are classified as unearned revenue on the government-wide statement of net assets, thus the net current year increase of public art fund balances does not affect net assets	(1,237,489)
Change in net assets of governmental activities	\$ 1,628,645

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, 2009

	General Fund		Lodging Tax, Special Revenue Fund		1% for Art, Special Revenue Fund		
	Budget	Actual	Budget	Actual	Budget	Actual	
						Variance - Positive (Negative)	
REVENUES							
Program Support from King County	\$ 237,470	\$ 264,379	\$ -	\$ -	\$ 2,602,990	\$ 2,660,048	\$ 57,058
Lodging Tax Gross Receipts	-	-	12,020,317	8,432,773	-	-	-
Investment Earnings	27,619	17,657	263,794	100,972	216,111	112,045	(104,066)
Miscellaneous	165,000	343,412	-	132,176	-	150	150
Total Revenues	430,089	625,448	12,284,111	8,665,921	2,819,101	2,772,243	(46,858)
EXPENDITURES							
Arts and cultural program activities	1,471,849	1,472,145	5,437,353	5,355,892	-	-	-
Public art program activities	302,034	374,487	-	-	2,863,905	1,512,879	1,351,026
Management and general supporting	545,211	503,949	-	-	-	-	-
Total Expenditures	2,319,093	2,350,581	5,437,353	5,355,892	2,863,905	1,512,879	1,351,026
Excess (deficiency) of revenues over (under) expenditures	(1,889,005)	(1,725,133)	6,846,758	3,310,029	(44,804)	1,259,364	1,304,168
OTHER FINANCING SOURCES (USES)							
Payments to King County for debt service	-	-	(566,505)	(566,505)	-	-	-
Interfund transfers in (out)	1,296,218	1,247,813	(6,031,700)	(4,599,047)	(72,645)	(21,875)	50,770
Total Other Financing Sources (uses)	1,296,218	1,247,813	(6,598,205)	(5,165,552)	(72,645)	(21,875)	50,770
Net changes in fund balances	\$ (592,787)	\$ (477,320)	\$ 248,553	\$ (1,855,523)	\$ (117,449)	\$ 1,237,489	\$ 1,354,938

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, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 PI S, Suite 200, Seattle, WA 98104. In addition, the CDA is included as a component unit in King County’s annual financial statements.

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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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 2009.

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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2009

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. 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 current period or soon enough thereafter to pay liabilities of the current 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 2009 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. King County collects taxes on certain lodging transactions subject to the tax under RCW 82.08 and receives a credit against a portion of the State of Washington sales tax for these local lodging tax revenues, allowing use of the lodging tax revenues for local purposes. In accordance with KCC chapters 4.08, 4.42 and 2.48, seventy percent of total annual lodging tax revenues in excess of \$5.3 million (required for annual Kingdome debt service) are allocated and transferred to the CDA to be used for the support of the arts, the performing arts, art museums, heritage museums and cultural museums of King County. The annual lodging tax revenues transferred to the CDA are allocated in the following order per KCC 4.42.025: 1) forty percent is transferred to the CDA's cultural endowment fund; 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. Legislation providing for the use of lodging taxes in King County for cultural purposes is currently scheduled to expire at the end of 2012.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2009

The One Percent 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 Resources Endowment Permanent Fund is used to receive and manage 40% of the annual lodging tax revenues in accordance with the State of Washington RCW 67.28.180, KCC chapters 4.08.195 and 4.42.025, and CDA policy. The legally required principal portion of the fund is permanent and irreducible. Interest earnings and elective transfers to the fund are available for program use.

Cash and Cash Equivalents

In addition to deposits with a qualified public depository as described in Note 2, 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 Prepaid Rent

Capital assets include furniture and fixtures; depreciation is computed using the straight-line method over an estimated useful life of seven years. 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 capitalized as long-term prepaid rent. These costs are amortized on a straight-line basis over the 29-year life of the lease.

Unearned Revenues

Unearned revenues represent the total amounts collected from King County for the One Percent 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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2009

Use of Estimates

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

NOTE 2 – DEPOSITS WITH FINANCIAL INSTITUTIONS 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.

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. Funds in the amount of \$9,033,025 were held in the LGIP at December 31, 2009; the interest rate for funds held in the LGIP was 0.35% at December 31, 2009.

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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 Notes to Financial Statements
 December 31, 2009

All investment securities are recorded at fair market 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, 2009:

<u>Investment Type</u>	<u>Fair Market</u>	<u>Cost</u>	<u>Average Interest Rate</u>	<u>Effective Duration(Yrs)</u>
U.S. Treasury Notes	\$ 18,474,121	\$ 17,771,179	3.45%	4.170
Federal Home Loan Mortgage Corp Notes	6,837,159	6,723,009	4.22%	4.335
Federal National Mortgage Assn Notes	9,356,658	9,071,224	4.52%	3.323
Federal Home Loan Bank Bonds	1,347,328	1,287,543	4.25%	3.503
Federal Farm Credit Bank Bonds	1,006,534	997,765	3.93%	3.886
Other	878,624	878,624	0.18%	0.003
Totals	<u>\$ 37,900,424</u>	<u>\$ 36,729,424</u>	<u>3.82%</u>	<u>3.863</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, 2009, the combined weighted average effective duration of the CDA's portfolio was 3.86 years.

Credit risk - Credit risk is the risk that an issuer will not fulfill its obligations. At December 31, 2009 all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AAA".

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, 2009, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: U.S. Treasury Obligations – 49%, Federal National Mortgage Association – 25% and Federal Home Loan Mortgage Corporation – 18%.

NOTE 3 – CAPITAL ASSETS AND LONG-TERM PREPAID RENT

The CDA had no significant capital asset activity in 2009. Receivables and other assets per the government-wide statement of net assets included the following at December 31, 2009:

Furniture and fixtures, cost	\$ 83,868
Accumulated depreciation	<u>(50,481)</u>
Net book value	<u>\$ 33,387</u>
Prepaid rent, cost	\$ 583,089
Accumulated amortization	<u>(89,070)</u>
Net book value	<u>\$ 494,019</u>

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2009

NOTE 4 – RESTRICTED AND UNRESTRICTED NET ASSETS

Restricted expendable net assets - \$18,420,746 is restricted for use for arts and cultural programs, including 1) \$2,257,030 of expendable net assets in the General Fund restricted for specific grants per King County ordinance, 2) \$7,439,856 of expendable net assets in the Lodging Tax Special Revenue Fund restricted for outstanding and future arts and cultural program grants, and 3) \$8,723,860 of expendable net assets in the Cultural Resources Endowment Permanent Fund representing the net accumulated unexpended investment earnings and elective transfers to the fund that are restricted for use for arts and cultural programs.

Restricted nonexpendable net assets - \$22,890,508 is the permanent and irreducible legally required principal portion of the Cultural Resources Endowment Permanent Fund. Interest earnings are expendable for arts and cultural program use.

Unrestricted net assets - \$2,875,464 deficit is the result of long-term commitments that are greater than currently available resources. The deficit corresponds to the total noncurrent liability recognized by the CDA for 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 King County ordinance, these long-term commitments are to be funded by future lodging tax revenues.

NOTE 5 – 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.

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 6 – DEFINED BENEFIT PENSION PLANS

All eligible CDA personnel participate in the Public Employees' Retirement Systems (PERS), a cost-sharing, multi-employer statewide local government retirement system administered by the State of Washington's Department of Retirement Systems. Each biennium, the state Pension Funding Council adopts employer contribution rates; all employers are required to contribute at the level established by the Legislature. The CDA recognized \$90,907 of PERS retirement expenses in 2009. The required employer contribution rate is 5.31% as of December 31, 2009.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 Notes to Financial Statements
 December 31, 2009

NOTE 7 – LONG-TERM DEBT

The CDA recognizes a noncurrent liability on its government-wide statement of net assets 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.

In 2009, the CDA transferred \$566,505 of 2009 lodging tax receipts back to King County as payments for County debt service requirements, including \$410,836 for County bond principal and \$155,669 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>
2010	\$ 432,667	\$ 137,274	\$ 569,941
2011	449,972	118,327	568,299
2012	467,825	96,736	564,561
2013	195,000	73,563	268,563
2014	205,000	64,750	269,750
2015-2019	765,000	208,500	973,500
2020-2021	<u>360,000</u>	<u>27,250</u>	<u>387,250</u>
Totals	<u>\$ 2,875,464</u>	<u>\$ 726,400</u>	<u>\$ 3,601,864</u>
Due within one year	<u>432,667</u>		
Due in more than one year	<u>\$ 2,442,797</u>		

Legislation providing for the use of lodging taxes in King County for cultural purposes is currently scheduled to expire at the end of 2012. The anticipated source of funds for CDA payments to King County for debt service in 2013-2021 is the Cultural Resources Endowment Permanent fund.

NOTE 8 – COMMITMENTS AND LEASES

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, 2009 was \$4,310,065 for the Lodging Tax Revenues program and \$2,003,014 of other King County grants.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 Notes to Financial Statements
 December 31, 2009

Operating Leases

The CDA leases office equipment under noncancelable leases with various expiration dates. 2009 lease expense for office equipment was \$7,597; future minimum annual lease payments are approximately \$7,600.

The CDA leases office space under a lease expiring June 30, 2034. 2009 lease expense for office space was \$118,338. Minimum annual lease payments for 2010 are approximately \$121,000 with two percent annual increases thereafter. The cost of long-term prepaid rent incurred at the inception of the office space lease is amortized over the life of the lease. Future annual amortization amounts are \$20,223.

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Cultural Resource Permanent Fund	Lodging Tax S.R. Fund	\$ 387,483
Lodging Tax S.R. Fund	General Fund	322,870
One Percent for Art S.R. Fund	General Fund	173,853

Each fund's net interfund receivable/payable position is presented on the fund balance sheet. The interfund balances resulted from the time lag between the dates: 1) when allocable revenues were accrued and when the revenues were received in cash and subsequently transferred, and 2) when funds were expended for prepaid rent and when the originating fund source receives final internal accounting benefit for the expenditure. No interest is charged on these interfund balances.

Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	One Percent for Art S.R. Fund	\$ 62,488
Lodging Tax S.R. Fund	Cultural Resource Permanent Fund	3,373,109
Lodging Tax S.R. Fund	General Fund	1,225,938
One Percent for Art S.R. Fund	General Fund	84,363
Total Transfers		<u>\$ 4,745,898</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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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Notes to Financial Statements
December 31, 2009

NOTE 10 – 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 assets.

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. No such reductions are anticipated in 2010; however, legislation providing for the use of lodging tax receipts for cultural purposes in King County is currently scheduled to expire in 2012. The CDA is actively involved in legislative efforts to extend the use of lodging tax receipts for cultural purposes, and is actively involved in strategic planning efforts in preparation for any potential revenue declines.



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.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

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