

Washington State Auditor's Office
Financial Statements Audit Report

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

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006636

Issue Date
October 31, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

October 31, 2011

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
January 1, 2010 through December 31, 2010**

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Status of Prior Audit Findings

4Culture King County January 1, 2010 through December 31, 2010

The status of findings contained in the prior years' audit reports of the 4Culture is provided below:

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

Report No. 1004623, dated November 29, 2010

Background

It is the responsibility of the Authority's 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.

In 2009 our audit identified significant deficiencies in controls that adversely affect the Authority's ability to procure reliable financial statements. An outside consultant prepares the Authority's basic financial statements and notes. However, the Authority did not have internal controls in place to perform a detailed review and reconciliation of the financial statements and ensure they were accurate, complete and adequately supported.

Status

The condition reported during the 2009 audit has been resolved. No material errors or significant deficiencies in internal controls were noted.

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, 2010 through December 31, 2010

Board of Directors
4Culture
Seattle, Washington

We have audited the financial statements of the governmental activities and each major fund of the 4Culture, Washington, as of and for the year ended December 31, 2010, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 17, 2011.

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.

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 the 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.

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*.

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.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 17, 2011

Independent Auditor's Report on Financial Statements

4Culture
King County
January 1, 2010 through December 31, 2010

Board of Directors
4Culture
Seattle, Washington

We have audited the accompanying financial statements of the governmental activities and each major fund of the 4Culture, Washington, as of and for the year ended December 31, 2010, which collectively comprise the Authority's basic financial statements as listed on page 5. 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 the 4Culture, as of December 31, 2010, and the respective changes in financial position, and the respective budgetary comparison for the General, Lodging Tax Special Revenue and 1% for Art Special Revenue 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 7 through 11 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" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 17, 2011

Financial Section

4Culture King County January 1, 2010 through December 31, 2010

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010

Statement of Activities – 2010

Balance Sheet – Governmental Funds – 2010

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
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CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2010

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, 2010. This information should be considered in conjunction with the CDA's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS – 2010

As of December 31, 2010, the CDA's total net assets were \$41.8 million, including \$17.7 million of restricted net assets expendable for programs, \$26.4 million of nonexpendable net assets restricted for an endowment, and a \$2.3 million deficit in unrestricted net assets. Total net assets of the CDA increased by \$3.3 million, or 8.7%, for the year ended December 31, 2010. This increase was composed of \$13.0 million of total revenues, \$9.6 million of total expenses, and \$0.1 million of intergovernmental payments to King County.

As of December 31, 2010, the CDA's total fund balances were \$49.7 million, including \$32.5 million reserved for encumbrances and an endowment. Total fund balances of the CDA increased by \$1.4 million, or 2.9%, for the year ended December 31, 2010. This increase was composed of \$11.5 million of total fund revenues, \$9.6 million of total fund expenditures, and \$0.5 million of net financing uses including 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 2010 are all classified as governmental activities, which are principally supported by intergovernmental revenues. The CDA reported no business-type activities in 2010, 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, 2010

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 2010 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

Net assets may serve over time as a useful indicator of the CDA's financial position. At December 31, 2010, total net assets of the CDA were \$41,759,235, an increase of 8.7% over the net assets of the previous year. Net assets included \$17,725,424 of restricted net assets expendable for programs; \$26,377,636 of nonexpendable net assets restricted for an endowment; and a \$2,355,409 deficit in unrestricted net assets.

	Net Assets as of December 31,	
	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents	\$ 5,884,898	\$ 9,679,805
Investments	42,944,225	37,900,424
Other assets	<u>1,669,326</u>	<u>1,713,849</u>
Total assets	<u>50,498,449</u>	<u>49,294,078</u>
Liabilities:		
Current liabilities	6,319,202	7,921,618
Noncurrent liabilities	<u>2,420,012</u>	<u>2,936,670</u>
Total liabilities	<u>8,739,214</u>	<u>10,858,288</u>
Net Assets:		
Invested in capital assets, net of related debt	-	-
Restricted		
Expendable	17,725,424	18,420,746
Nonexpendable	26,377,636	22,890,508
Unrestricted	<u>(2,343,825)</u>	<u>(2,875,464)</u>
Total net assets	<u>\$41,759,235</u>	<u>\$38,435,790</u>

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 Management's Discussion and Analysis
 For the Year Ended December 31, 2010

Other assets primarily include a \$1.1 million receivable from King County for lodging tax revenues. Current liabilities include \$6.0 million of deferred revenues related to the One Percent (1%) for Art program. Noncurrent liabilities include \$2.3 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 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, does not mean that the CDA does not have resources available for its program obligations in the current year, but rather 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 \$3,323,445, or 8.7%, during 2010. The increase was primarily due to the increase in the cultural endowment fund resulting from required set-asides of current year lodging tax revenues. The following information reflects how the CDA's net assets changed during the fiscal year.

	<u>2010</u>	<u>2009</u>
Revenues:		
Lodging tax revenues	\$ 8,717,820	\$ 8,432,773
Program support from King County	2,160,597	1,689,438
Other program revenues	347,306	473,238
Investment earnings, net	<u>1,822,510</u>	<u>440,423</u>
Total revenues	<u>13,048,233</u>	<u>11,035,872</u>
Expenses:		
Arts and cultural support	6,892,098	6,844,600
Public art projects	2,263,954	1,897,251
Management and general supporting activities	<u>480,334</u>	<u>509,707</u>
Total expenses	<u>9,636,386</u>	<u>9,251,558</u>
Increase in net assets before transfers	<u>3,411,847</u>	<u>1,784,314</u>
Intergovernmental Payments:		
Payments to King County for County debt interest	<u>(88,402)</u>	<u>(155,669)</u>
Total transfers	<u>(88,402)</u>	<u>(155,669)</u>
Total increase in net assets	<u>\$ 3,323,445</u>	<u>\$ 1,628,645</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 DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2010

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

Intergovernmental payments of \$88,402 to King County in 2010 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, 2010 were \$49.7 million, an increase of \$1.4 million (2.9%) over the fund balances of the previous year. Total fund balances included (1) \$1.0 million in the General Fund; (2) \$7.2 million in the Lodging Tax Special Revenue Fund; (3) \$6.0 million in the One Percent (1%) for Art Special Revenue Fund; and (4) \$35.5 million in the Cultural Endowment Fund. Approximately \$32.5 million (65%) 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. Another \$7.7 million (16%) of the total fund balance is designated for specific program use.

Total fund balances of the CDA increased by \$1.4 million for the year ended December 31, 2010. This increase was composed of (1) \$11.5 million of total fund revenues; (2) \$9.6 million of total fund expenditures; and (3) \$0.5 million of net financing uses including intergovernmental payments to King County. The net increase was primarily due to the increase in the Cultural Endowment Fund from required set-asides of current year lodging tax revenues and investment earnings, offset by net decreases in the General Fund and One Percent for Art Special Revenue Fund resulting from current year expenditures of program funds received in prior years.

Total fund revenues of \$11.5 million in 2010 included (1) \$8.7 million of program revenues for lodging tax receipts from King County; (2) \$1.8 million of net investment earnings; and (3) \$0.5 million of program revenues from King County for the One Percent for Art program. Other revenues included other King County program support, fees from consulting services, and grants and contributions from other sources.

Total expenditures of \$9.6 million in 2010 included (1) \$6.8 million for arts and cultural support and other program expenses; (2) \$2.3 million for public art projects; and (3) \$0.5 million for management and general supporting activities.

Intergovernmental payments of \$0.5 million to King County in 2010 were for 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 and a \$1.1 million transfer of expendable earnings from the Cultural Endowment Fund to the Lodging Tax Special Revenue Fund for program use.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2010

There were no significant variances of actual results from the original or final budget except for (1) a \$1.3 million shortfall in program support revenues from King County in the One Percent for Art Special Revenue Fund due to the timing of County construction projects and King County project cancellations and other adjustments, (2) an under-expenditure of \$1.3 million for public art projects in the One Percent for Art Special Revenue Fund due to the timing of County construction projects, and (3) an under-expenditure of \$0.7 million for arts and cultural programs in the Lodging Tax Special Revenue Fund due to the timing of grant awards and payments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Revenues and expenses to be recognized in the 2011 government-wide statement of activities are expected to remain at 2010 levels in all categories except for (1) projected decrease of \$1.0 million in investment earnings; and (2) projected increase of \$1.0 million in expenditures for arts and cultural support and other program expenses.

Revenues and expenses to be recognized in the 2011 fund financial statements are expected to remain at 2010 levels in all categories except for (1) projected decrease of \$1.0 million in investment earnings; (2) projected increase of \$1.0 million in expenditures for arts and cultural support and other program expenses; and (3) projected decrease of \$0.5 million in program revenues from King County for the One Percent for Art program.

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 2011; 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, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,884,898	\$ -	\$ 5,884,898
Due from King County	1,150,081	-	1,150,081
Receivables and other assets, net	519,245	-	519,245
Investments	42,944,225	-	42,944,225
Total assets	50,498,449	-	50,498,449
LIABILITIES			
Accounts payable and other accrued liabilities	301,155	-	301,155
Deferred revenues	6,018,047	-	6,018,047
Noncurrent liabilities			
Due within one year	443,315	-	443,315
Due in more than one year	1,976,697	-	1,976,697
Total liabilities	8,739,214	-	8,739,214
NET ASSETS			
Invested in capital assets, net of related debt	-	-	-
Restricted			
Expendable	17,725,424	-	17,725,424
Nonexpendable	26,377,636	-	26,377,636
Unrestricted	(2,343,825)	-	(2,343,825)
Total net assets	\$ 41,759,235	\$ -	\$ 41,759,235

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, 2010

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	\$ 9,636,386	\$ 85,148	\$ 11,140,575	\$ -	\$ 1,589,337
General revenues and transfers:					
Investment earnings					1,822,510
Payments to King County for debt service interest					(88,402)
Total general revenues and transfers					<u>1,734,108</u>
Change in net assets					3,323,445
Net Assets - January 1, 2010					38,435,790
Net Assets - December 31, 2010					<u>\$ 41,759,235</u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 BALANCE SHEET - GOVERNMENTAL FUNDS
 DECEMBER 31, 2010

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Endowment Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,504,098	\$ 660,996	\$ 325,409	\$ 3,394,395	\$ 5,884,898
Receivable, net & other	36,846	5,538	1,883	-	44,267
Due from a primary government	-	1,112,383	37,698	-	1,150,081
Due from other funds	-	-	173,320	440,631	613,951
Investments	-	5,687,731	5,562,971	31,693,523	42,944,225
TOTAL ASSETS	\$ 1,540,944	\$ 7,466,648	\$ 6,101,281	\$ 35,528,549	\$ 50,637,422
LIABILITIES					
Accounts payable	\$ 30,486	\$ 95,673	\$ 23,467	\$ -	\$ 149,626
Payroll and other accrued liabilities	59,418	32,344	59,767	-	151,529
Due to other funds	495,201	118,750	-	-	613,951
Total Liabilities	585,105	246,767	83,234	-	915,106
FUND BALANCES					
Reserved - Encumbrances	1,302,000	3,203,829	1,656,190	-	6,162,019
Reserved - Endowment	-	-	-	26,377,636	26,377,636
Unreserved - Designated	(346,161)	4,016,052	2,640,786	1,433,130	7,743,807
Unreserved - Undesignated	-	-	1,721,071	7,717,783	9,438,854
Total Fund Balances	955,839	7,219,881	6,018,047	35,528,549	49,722,316
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,540,944	\$ 7,466,648	\$ 6,101,281	\$ 35,528,549	\$ 50,637,422
Reconciliation of total governmental fund balances to net assets:					
Total fund balances					\$ 49,722,316
Public art unearned revenues are not due and payable in the current period and are not reported on the fund balance sheet					(6,018,047)
Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported on the fund balance sheet					(2,420,012)
Capital assets and long-term prepaid rent are not current financial resources and are not reported on the fund balance sheet					474,978
Total net assets of governmental activities					\$ 41,759,235

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, 2010

	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	\$ 237,470	\$ -	\$ 453,122	\$ -	\$ 690,592
Lodging Tax Gross Receipts	-	8,717,820	-	-	8,717,820
Investment Earnings	6,174	153,807	135,476	1,527,053	1,822,510
Miscellaneous	269,186	2,074	4,135	-	275,395
Total Revenues	512,830	8,873,701	592,733	1,527,053	11,506,317
EXPENDITURES					
Arts and cultural program activities	1,234,040	5,640,756	-	-	6,874,796
Public art program activities	272,319	-	2,003,069	-	2,275,388
Management and general supporting	474,904	-	-	-	474,904
Total Expenditures	1,981,263	5,640,756	2,003,069	-	9,625,088
Excess (deficiency) of revenues over (under) expenditures	(1,468,433)	3,232,945	(1,410,336)	1,527,053	1,881,229
OTHER FINANCING SOURCES (USES)					
Payments to King County for debt service	-	(548,130)	-	-	(548,130)
Conversion of compensated absences to long-term liability	34,855	41,332	20,905	-	97,092
Interfund transfers in (out)	639,567	(2,946,121)	(80,574)	2,387,128	-
Total Other Financing Sources (uses)	674,422	(3,452,919)	(59,669)	2,387,128	(451,038)
Net changes in fund balances	(794,011)	(219,974)	(1,470,005)	3,914,181	1,430,191
Fund Balances - January 1, 2010	1,749,850	7,439,855	7,488,052	31,614,368	48,292,125
Fund Balances - December 31, 2010	\$ 955,839	\$ 7,219,881	\$ 6,018,047	\$ 35,528,549	\$ 49,722,316

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

Net change in fund balances - total governmental funds	\$ 1,430,191
Public art fund balances are classified as unearned revenue on the government-wide statement of net assets, thus the net current year decrease of public art fund	1,470,005
Payments to King County for principal debt service consume current financial resources of funds but do not affect net assets	459,728
Adjustment of noncurrent liability obligation from King County increases net assets but does not increase current financial resources of funds	71,911
Conversion of compensated absences liability to long-term liabilities increases current financial resources but does not increase net assets	(97,092)
Public art portion of compensated absences liability also included in net current year decrease of public art fund balances above	20,905
Depreciation of capital assets and amortization of prepaid rent reduce net assets but do not consume current financial resources of funds	(32,203)
Change in net assets of governmental activities	<u>\$ 3,323,445</u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund			Lodging Tax Special Revenue Fund			1% for Art Special Revenue 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)
REVENUES									
Program Support from King County	\$ 237,470	\$ 237,470	\$ -	\$ -	\$ -	\$ -	\$ 1,708,365	\$ 453,122	\$(1,255,243)
Lodging Tax Gross Receipts	-	-	-	8,517,101	8,717,820	200,719	204,806	135,476	(69,330)
Investment Earnings	9,117	6,174	(2,943)	208,698	153,807	(54,891)	-	4,135	4,135
Miscellaneous	65,000	269,186	204,186	-	2,074	2,074	1,913,171	592,733	(1,320,438)
Total Revenues	311,587	512,830	201,243	8,725,799	8,873,701	147,902			
EXPENDITURES									
Arts and cultural program activities	1,295,541	1,234,040	61,501	6,315,352	5,640,756	674,596	-	-	-
Public art program activities	234,713	272,319	(37,606)	-	-	-	3,330,627	2,003,069	1,327,558
Management and general supporting	499,948	474,904	25,044	-	-	-	-	-	-
Total Expenditures	2,030,203	1,981,263	48,940	6,315,352	5,640,756	674,596	3,330,627	2,003,069	1,327,558
Excess (deficiency) of revenues over (under) expenditures	(1,718,615)	(1,468,433)	250,182	2,410,447	3,232,945	822,498	(1,417,456)	(1,410,336)	7,120
OTHER FINANCING SOURCES (USES)									
Payments to King County for debt service	-	-	-	(570,391)	(548,130)	22,261	-	-	-
Conversion of compensated absences	-	34,855	34,855	-	41,332	41,332	-	20,905	(20,905)
Interfund transfers in (out)	662,539	639,567	(22,972)	(2,893,546)	(2,946,121)	(52,575)	(75,834)	(80,574)	(4,740)
Total Other Financing Sources (uses)	662,539	674,422	11,883	(3,463,937)	(3,452,919)	11,018	(75,834)	(59,669)	(25,645)
Net changes in fund balances	\$(1,056,076)	\$(794,011)	\$ 262,065	\$(1,053,490)	\$(219,974)	\$ 833,516	\$(1,493,290)	\$(1,470,005)	\$(18,525)

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, 2010

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net 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 2010.

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
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Notes to Financial Statements
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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 2010 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.

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

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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 expendable and available for program or other designated uses.

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 Assets

Cash and Cash Equivalents - In addition to deposits with a qualified public depository as described in Note 3, 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 (See Note 4 - "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.

Deferred Revenues – Deferred revenues 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.

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Notes to Financial Statements
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Amounts Due to and from Other Funds – All outstanding balances between funds including lending and borrowing arrangements are reported as due to/from other funds on the governmental funds balance sheet. A schedule of these interfund balances is included in Note 9.

Fund Balance Classification – A schedule of reserved and designated fund balances is included in Note 10.

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 assets as reported in the government-wide statement of net assets. 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 assets as reported in the government-wide statement of activities.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

The CDA maintains a deposit relationship with a local commercial bank. All deposits with this qualified public depository that are not insured by the Federal Deposit Insurance Corporation (FDIC) are 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 \$5,165,982 were held in the LGIP at December 31, 2010; the interest rate for funds held in the LGIP was 0.26% at December 31, 2010.

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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.

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, 2010:

Investment Type	Fair Market	Cost	Average Interest Rate	Effective Duration(Yrs)
U.S. Treasury Notes	\$ 21,218,827	\$ 20,216,744	3.13%	4.353
Federal Home Loan Mortgage Corp Notes	6,608,039	6,430,023	4.09%	2.868
Federal National Mortgage Assn Notes	9,586,807	9,321,744	4.28%	3.027
Federal Home Loan Bank Bonds	3,186,897	3,182,431	4.29%	8.002
Federal Farm Credit Bank Bonds	1,367,948	1,303,175	3.91%	4.963
Other	975,707	975,707	0.19%	0.003
Totals	<u>\$ 42,944,225</u>	<u>\$ 41,429,824</u>	<u>3.58%</u>	<u>4.020</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, 2010, the combined weighted average effective duration of the CDA's portfolio was 4.02 years.

Credit risk - Credit risk is the risk that an issuer will not fulfill its obligations. At December 31, 2010 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, 2010, 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 – 22%, Federal Home Loan Mortgage Corporation – 15% and Federal Home Loan Bank – 7%.

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NOTE 4 – CAPITAL ASSETS AND LONG-TERM PREPAID RENT

The CDA had no significant capital asset activity in 2010. Receivables and other assets per the government-wide statement of net assets included the following at December 31, 2010:

Furniture and fixtures, cost	\$ 83,868
Accumulated depreciation	<u>(63,900)</u>
Net book value	<u>\$ 19,968</u>
Prepaid rent, cost	\$ 583,089
Accumulated amortization	<u>(107,856)</u>
Net book value	<u>\$ 475,233</u>

NOTE 5 – 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 \$71,386 of PERS retirement expenses in 2010. The required employer contribution rate is 5.31% as of December 31, 2010.

NOTE 6 – 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 7 – LONG-TERM DEBT AND CHANGES IN NONCURRENT LIABILITIES

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. Legislation providing for the use of lodging tax revenues in King County for cultural purposes is currently scheduled to expire at the end of 2012. In the event that the CDA is required to continue making debt service payments to King County after the expiration of the lodging tax revenues in 2012, the Cultural Resources Endowment Permanent Fund is the designated source of funds for debt service payments to King County in 2013-2021.

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In 2010, the CDA transferred \$548,130 of 2010 lodging tax receipts back to King County as payments for County debt service requirements, including \$459,728 for County bond principal and \$88,402 for County interest expense. An additional \$71,911 reduction of future bond principal payments resulted from King County refinancing activities in 2010. Future scheduled payments to King County for County debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 439,887	\$ 90,815	\$ 530,702
2012	453,938	71,468	525,406
2013	195,000	56,963	251,963
2014	205,000	48,525	253,525
2015	140,000	39,900	179,900
2016-2020	745,000	108,300	853,300
2021	<u>165,000</u>	<u>3,300</u>	<u>168,300</u>
Totals	<u>\$ 2,343,825</u>	<u>\$ 419,271</u>	<u>\$ 2,763,096</u>
Due within one year	<u>439,887</u>		
Due in more than one year	<u>\$ 1,903,938</u>		

The CDA also recognizes a noncurrent liability for compensated absences related to accrued vacation. Compensated absences were classified as a current liability in 2009.

The following table summarizes changes in noncurrent liabilities for the year ended December 31, 2010:

	<u>Balance</u> <u>01/01/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/10</u>	<u>Due Within</u> <u>One Year</u>
Debt service to King County	\$ 2,875,464	\$ -	\$ (531,639)	\$ 2,343,825	\$ 439,887
Compensated absences liability	<u>61,206</u>	<u>73,788</u>	<u>(58,807)</u>	<u>76,187</u>	<u>3,428</u>
Total noncurrent liabilities	<u>\$ 2,936,670</u>	<u>\$ 73,788</u>	<u>\$ (590,446)</u>	<u>\$ 2,420,012</u>	<u>\$ 443,315</u>

NOTE 8 – LEASES AND OTHER COMMITMENTS

Operating Leases

The CDA leases office space under a lease expiring June 30, 2034. 2010 lease expense for office space was \$124,804. Minimum annual lease payments for 2011 are approximately \$123,000 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. In addition, the CDA leases office equipment under noncancelable leases with various expiration dates. 2010 lease expense for office equipment was \$7,607; future minimum annual lease payments are approximately \$7,600.

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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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, 2010 was \$3,162,497 for the Lodging Tax Revenues program and \$1,246,921 of other King County grants.

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 Special Revenue Fund	\$ 440,631
Lodging Tax Special Revenue Fund	General Fund	321,881
1% for Art Special Revenue Fund	General Fund	173,320

Each fund's net interfund receivable or payable position is presented on the fund balance sheet. The interfund balances fund 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 interfund loans were made and when the loans were repaid. The interfund loans resulted from advance payments by special revenue funds for prepaid rent; no interest is charged on these interfund balances and the loans are expected to be repaid over the life of the lease. The interfund receivable for the special revenue funds is considered to be a current financial resource available for expenditure by the funds; accordingly a portion of the endowment fund is designated as the source of funds for repayment of the interfund loan as needed.

Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Lodging Tax Special Revenue Fund	Cultural Resource Permanent Fund	\$ 3,487,128
Cultural Resource Permanent Fund	Lodging Tax Special Revenue Fund	1,100,000
Lodging Tax Special Revenue Fund	General Fund	558,993
1% for Art Special Revenue Fund	General Fund	80,574
Total Transfers		<u>\$ 5,226,695</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 10 – RESTRICTED AND UNRESTRICTED NET ASSETS

Restricted expendable net assets - \$17,725,424 is restricted for use for arts and cultural programs, including 1) \$1,395,961 of expendable net assets in the General Fund restricted for specific grants or other program commitments, 2) \$7,178,550 of expendable net assets in the Lodging Tax Special Revenue Fund restricted for outstanding and future arts and cultural program grants, and 3) \$9,150,913 of expendable net assets in the Cultural Resources

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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 - \$26,377,636 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 - \$2,343,825 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 11 – FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balances include portions of fund balances legally segregated for a specific future use or not available for appropriation. Designated fund balances represent tentative plans for future use of financial resources. Following is a list of all reserves and designations:

	<u>Amount</u>
Reserved for encumbrances, General Fund	\$ 1,302,000
Reserved for encumbrances, Lodging Tax Special Revenue Fund	3,203,829
Reserved for encumbrances, 1% for Art Special Revenue Fund	1,656,190
Reserved for endowment, Endowment Fund	<u>26,377,636</u>
Total reserved fund balances	<u>\$ 32,539,655</u>

	<u>Amount</u>
Designated for programs, General Fund	\$ 149,040
Designated for programs, Lodging Tax Special Revenue Fund	4,016,052
Designated for programs, 1% for Art Special Revenue Fund	2,640,786
Designated for programs, Endowment Fund	937,929
Designated for interfund loan, General Fund	(495,201)
Designated for interfund loan, Endowment Fund	<u>495,201</u>
Total designated fund balances	<u>\$ 7,743,807</u>

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

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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 2011; 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.

Designation of Future Revenues

As noted in Note 7, 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 is currently scheduled to expire at the end of 2012. In the event that the CDA is required to continue making debt service payments to King County after the expiration of the lodging tax revenues in 2012, the CDA has designated annual endowment interest earnings to be the funding source for debt service payments to King County for 2013 to 2021. In the unanticipated event that annual interest earnings on the endowment are insufficient to meet debt service requirements in 2013-2021, the CDA has designated other expendable endowment fund balances to be the source of debt service payments.



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 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 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.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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