



Office of the Washington State Auditor
Pat McCarthy

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

For the period January 1, 2019 through December 31, 2019

Published February 18, 2021

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

February 18, 2021

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,

Pat McCarthy
State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

4Culture January 1, 2019 through December 31, 2019

Board of Directors
4Culture
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of 4Culture, a component unit of King County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 10, 2021.

As discussed in Note 12 to the financial statements, the effects of the COVID-19 pandemic could lead to a reduction in the Authority's revenues.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

February 10, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

4Culture

January 1, 2019 through December 31, 2019

Board of Directors
4Culture
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of 4Culture, a component unit of King County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2019, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Lodging Tax Special Revenue, 1 percent for Art Special Revenue and Cultural Special Account funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 12 to the financial statements, the effects of the COVID-19 pandemic could lead to a reduction in the Authority's revenues. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and

other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

February 10, 2021

4Culture
January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Balance Sheet – Governmental Funds – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual
Comparison – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of CDA's Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3
– 2019

Schedule of CDA Contributions – PERS 1 and PERS 2/3 – 2019

Schedule of Changes in Total OPEB Liability and Related Ratios – 2019

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2019

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, 2019. This information should be considered in conjunction with the CDA's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS – 2019

As of December 31, 2019, the CDA's total net position was \$16.0 million, all of which was restricted and expendable for cultural programs. Total net position of the CDA decreased by \$13.0 million, or 44.9%, for the year ended December 31, 2019. This decrease was composed of \$6.1 million of total revenues and \$19.1 million of total expenses.

As of December 31, 2019, the CDA's total fund balances were \$36.6 million, substantially all of which was restricted for specific purposes. Total fund balances of the CDA decreased by \$6.2 million, or 14.5%, for the year ended December 31, 2019. This decrease was composed of \$11.4 million of total fund revenues, \$20.6 million of total fund expenditures and \$3.0 million of other fund sources.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

The CDA's activities in 2019 are all classified as governmental activities, which are principally supported by intergovernmental revenues. The CDA reported no business-type activities in 2019, which are intended to recover all or a significant portion of their costs through user fees and charges to external users of services.

Fund Financial Statements

The CDA, like other public authorities and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All CDA funds used in 2019 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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 Management's Discussion and Analysis
 For the Year Ended December 31, 2019

The CDA presents a balance sheet and statement of revenues, expenditures, and changes in fund balances for each of its funds. Each of these statements provides a reconciliation to the government-wide financial statements.

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

Net position may serve over time as a useful indicator of the CDA's financial position. At December 31, 2019, the total net position of the CDA was \$15,982,668, a decrease of 44.9% from the net position of the previous year as restated. The entire net position was restricted and expendable for arts and culture programs.

	Net Position as of December 31,	
	<u>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents	\$25,635,061	\$25,149,987
Investments	11,452,694	21,194,802
Other assets	<u>367,186</u>	<u>360,678</u>
Total assets	<u>37,454,941</u>	<u>46,705,467</u>
Deferred Outflows	274,616	254,992
Liabilities:		
Current liabilities	12,244,675	9,973,356
Noncurrent liabilities	<u>9,071,912</u>	<u>7,589,510</u>
Total liabilities	<u>21,316,587</u>	<u>17,562,866</u>
Deferred Inflows	430,302	379,922
Net Position:		
Net investment in capital assets	-	-
Restricted for arts and cultural purposes	15,982,668	29,017,671
Unrestricted	<u>-</u>	<u>-</u>
Total net position	<u>\$15,982,668</u>	<u>\$29,017,671</u>

Current liabilities include \$11.7 million of unearned revenues related to the One Percent (1%) for Art program. Noncurrent liabilities include \$5.1 million for the total of future required payments to King County for the principal portion of debt service requirements on County bonds issued for cultural purposes before December 31, 2002 and County bonds issued for the Building for Culture capital investment program in 2016, \$3.0 million in advances from King County, \$1.2 million of total OPEB liability and \$0.8 million of net pension liability.

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 Management's Discussion and Analysis
 For the Year Ended December 31, 2019

Analysis of Changes in Net Position

The CDA's total net position decreased \$13,035,003, or 44.9%, during 2019. The decrease was primarily due to the planned drawdown of the Cultural Special Account Fund in light of decreased lodging tax revenues. The following information reflects how the CDA's net position changed during the fiscal year.

	<u>2019</u>	<u>2018</u>
Revenues:		
Program support from King County	\$ 4,750,518	\$ 4,895,975
Other program revenues	294,644	510,601
Investment earnings, net	<u>1,088,694</u>	<u>874,812</u>
Total revenues	<u>6,133,856</u>	<u>6,281,388</u>
Expenses:		
Culture and recreation program activities	<u>19,168,859</u>	<u>14,988,499</u>
Total expenses	<u>19,168,859</u>	<u>14,988,499</u>
Total increase (decrease) in net position	<u>\$(13,035,003)</u>	<u>\$ (8,707,111)</u>

Program support from King County includes revenues for the One Percent (1%) for Art and Building for Culture capital investment programs, revenues for other grants to be managed by the CDA and awarded by King County to other organizations, and special appropriations for arts and cultural programs managed by the CDA.

Cultural and recreation program expense amounts and allocations are incurred in accordance with requirements specified in the King County Code and approved budgets. Certain public art project expenses are partially dependent on the timing of King County construction projects. Expenses increased in 2019 primarily due to the new Building for Equity capital expenditure program. Program expenses included required payments of \$0.9 million to King County for the interest portion of debt service requirements on County bonds issued for cultural purposes before December 31, 2002 and County bonds issued in 2016 for the Building for Culture capital investment program.

ANALYSIS OF FUNDS

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

The CDA's total governmental fund balances at December 31, 2019 were \$36.6 million, a decrease of \$6.2 million (14.5%) over the fund balances of the previous year. Total fund balances included (1) \$2.7 million in the General Fund; (2) \$5.7 million in the Lodging Tax Special Revenue Fund; (3) \$11.7 million in the One Percent (1%) for Art Special Revenue Fund; and (4) \$16.5 million in the Cultural Special Account Fund. Substantially all (99.8%) of the total fund balance is restricted due to certain legal restrictions on its specific use.

Total fund balances of the CDA decreased by \$6.2 million for the year ended December 31, 2019. This decrease was composed of (1) \$11.4 million of total fund revenues, (2) \$20.6 million of total fund expenditures and (3) \$3.0 million of advances from King County for the Building for Equity program. The net decrease in total fund balances was primarily due to the planned drawdown of the Cultural Special Account Fund in light of decreased lodging tax revenues.

Total fund revenues of \$11.4 million in 2019 included (1) \$6.6 million of recognized program revenues for the One Percent for Art program, (2) \$3.0 million of recognized program revenues from King County for the Building for Culture capital investment program and (3) \$1.0 million of investment earnings. Other

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2019

revenues included other King County program support, fees from consulting services and grants and contributions from other sources.

Total expenditures of \$20.6 million in 2019 included (1) \$7.5 million of expenditures for the lodging tax awards program, (2) \$7.0 million of expenditures for the Building for Culture and Building for Equity capital investment programs and (3) \$2.2 million of expenditures for required debt service payments on King County debt. Other expenditures were for other arts and cultural support, public art projects, and management and general supporting activities.

Significant interfund transfers included a \$7.3 million net transfer from the Cultural Special Account Fund to the Lodging Tax Special Revenue Fund and a \$3.0 million net transfer from the Cultural Special Account Fund to the General Fund for use for current year programs.

There were no significant variances of actual results from the original or final budget except for (1) a \$4.1 million under-expenditure for public art projects in the One Percent for Art Special Revenue Fund due to the timing of County construction projects; (2) a \$2.4 million under-expenditure for cultural programs in the General Fund due to the timing of payments for the Preservation Action Fund and other programs; (3) a \$1.2 million excess of revenues in the One Percent for Art Special Revenue Fund due to the timing of revenue receipts from the County; and (4) a \$1.3 million shortfall of advances from King County for the Building for Equity program due to the timing of reimbursements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

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

Revenues and expenses to be recognized in the 2020 government-wide statement of activities are expected to remain at 2019 levels in all categories except for (1) projected net increase of \$1.5 million in program support from King County; (2) projected decrease of \$0.6 million in investment earnings and (3) projected net increase of \$0.6 million in expenses for culture program activities.

Revenues and expenses to be recognized in the 2020 fund financial statements are expected to remain at 2019 levels in all categories except for (1) projected decrease of \$6.2 million in One Percent for Art Special Revenue Fund revenues from program support from King County; (2) projected decrease of \$0.6 million in investment earnings; (3) projected decrease of \$4.0 million in General Fund expenditures for culture program activities; (4) projected decrease of \$0.5 million in Lodging Tax Special Revenue Fund expenditures for culture program activities, and (5) projected \$3.2 million increase in One Percent for Art Special Revenue Fund expenditures for culture program activities.

REQUESTS FOR INFORMATION

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 STATEMENT OF NET POSITION
 DECEMBER 31, 2019

	Governmental Activities
ASSETS	
Cash and cash equivalents	25,635,061
Investments	11,452,694
Due from King County	-
Other current assets	94,180
Prepaid rent, noncurrent	273,006
Total assets	37,454,941
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows on pensions	265,562
Deferred outflows on other post retirement benefits	9,054
Total deferred outflows	274,616
 LIABILITIES	
Accounts payable and other accrued liabilities	508,897
Unearned revenues	11,735,778
Noncurrent liabilities	
Due within one year	1,317,554
Due in more than one year	7,754,358
Total liabilities	21,316,587
 DEFERRED INFLOWS OF RESOURCES	430,302
 NET POSITION	
Net investment in capital assets	-
Restricted for culture and recreation purposes	15,982,668
Unrestricted	-
Total net position	15,982,668

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, 2019

Program	Expenses	Program Revenues			Net Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental Activities:					
Culture and recreation	19,168,859	161,623	4,883,539	-	<u>(14,123,697)</u>
General revenues and transfers:					
Investment earnings					<u>1,088,694</u>
Total general revenues and transfers					<u>1,088,694</u>
Change in net position					(13,035,003)
Net Position - January 1, 2019					29,017,671
Net Position - December 31, 2019					<u><u>15,982,668</u></u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
 dba 4CULTURE
 BALANCE SHEET - GOVERNMENTAL FUNDS
 DECEMBER 31, 2019

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Special Account	Total Governmental Funds
ASSETS					
Cash and cash equivalents	2,800,267	6,019,705	11,756,741	5,058,348	25,635,061
Investments	-	-	-	11,452,694	11,452,694
Due from a primary government	-	-	-	-	-
Other current assets	50,688	37,975	5,517	-	94,180
TOTAL ASSETS	<u>2,850,955</u>	<u>6,057,680</u>	<u>11,762,258</u>	<u>16,511,042</u>	<u>37,181,935</u>
LIABILITIES					
Accounts payable	26,945	174,803	22,471	-	224,219
Payroll and other accrued liabilities	106,408	139,339	38,931	-	284,678
Unearned Revenues	34,922	-	-	-	34,922
Total Liabilities	<u>168,275</u>	<u>314,142</u>	<u>61,402</u>	<u>-</u>	<u>543,819</u>
FUND BALANCES					
Nonspendable	34,299	37,975	5,517	-	77,791
Restricted	2,648,381	5,705,563	11,695,339	16,511,042	36,560,325
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>2,682,680</u>	<u>5,743,538</u>	<u>11,700,856</u>	<u>16,511,042</u>	<u>36,638,116</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>2,850,955</u>	<u>6,057,680</u>	<u>11,762,258</u>	<u>16,511,042</u>	<u>37,181,935</u>

Reconciliation of total governmental fund balances to net position:

Total fund balances	36,638,116
Certain public art unearned revenues are not due and payable in the current period and are not reported on the fund balance sheet	(11,700,856)
Long-term liabilities, including bonds payable and net pension and OPEB liabilities, are not due and payable in the current period and are not reported on the fund balance sheet	(9,071,912)
Deferred outflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	274,616
Deferred inflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	(430,302)
Noncurrent prepaid rent is not a current financial resource and is not reported on the fund balance	273,006
Total net position of governmental activities	<u>15,982,668</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, 2019

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Special Account	Total Governmental Funds
REVENUES					
Program Support from King County	3,405,672	-	6,627,039	-	10,032,711
Lodging Tax Gross Receipts	-	-	-	-	-
Investment Earnings	88,816	131,075	237,009	631,794	1,088,694
Miscellaneous	273,144	1,000	20,499	-	294,643
Total Revenues	3,767,632	132,075	6,884,547	631,794	11,416,048
EXPENDITURES					
Culture and recreation program activities	9,536,026	7,507,708	1,423,498	-	18,467,232
Payments to King County for debt service	1,997,145	171,100	-	-	2,168,245
Total Expenditures	11,533,171	7,678,808	1,423,498	-	20,635,477
Excess (deficiency) of revenues over (under) expenditures	(7,765,539)	(7,546,733)	5,461,049	631,794	(9,219,429)
OTHER FINANCING SOURCES (USES)					
Advances from King County	3,000,000	-	-	-	3,000,000
Transfers in	3,724,723	7,259,579	-	20,223	11,004,525
Transfers out	(20,223)	(537,697)	(178,856)	(10,267,749)	(11,004,525)
Total Other Financing Sources (uses)	6,704,500	6,721,882	(178,856)	(10,247,526)	3,000,000
Net changes in fund balances	(1,061,039)	(824,851)	5,282,193	(9,615,732)	(6,219,429)
Fund Balances - January 1, 2019	3,743,719	6,568,389	6,418,663	26,126,774	42,857,545
Fund Balances - December 31, 2019	2,682,680	5,743,538	11,700,856	16,511,042	36,638,116

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

Net change in fund balances - total governmental funds	(6,219,429)
Public art fund balances are classified as unearned revenue on the government-wide statement of net position, thus the net current year increase of public art fund balances does not affect net position	(5,282,193)
Certain net pension and OPEB liability changes increase net position but do not increase current financial resources of funds	298,216
Payments to King County for principal debt service consume current financial resources of funds but do not affect net position	1,270,000
Advances from King County provide current financial resources but do not affect net position	(3,000,000)
Interest expense on advances from King county reduce net position but do not decrease current financial resources of funds	(19,860)
Certain compensated absences liability changes reduce net position but do not decrease current financial resources of funds	(61,514)
Amortization of noncurrent prepaid rent reduces net position but does not decrease current financial resources of funds	(20,223)
Change in net position of governmental activities	(13,035,003)

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, 2019

	General Fund			Lodging Tax Special Revenue Fund			1% for Art Special Revenue Fund			Cultural Special Account Fund			
	Original Budget	Final Budget	Actual	Variance - Positive (Negative)	Original and Final Budget	Actual	Variance - Positive (Negative)	Original and Final Budget	Actual	Variance - Positive (Negative)	Original and Final Budget	Actual	Variance - Positive (Negative)
REVENUES													
Program Support from King County	3,266,535	3,266,535	3,405,672	139,137	-	-	-	5,417,443	6,627,039	1,209,596	-	-	-
Lodging Tax Gross Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment Earnings	60,000	60,000	88,816	28,816	120,000	131,075	11,075	130,000	237,009	107,009	545,000	631,794	86,794
Miscellaneous	161,250	161,250	273,144	111,894	-	1,000	1,000	-	20,499	20,499	-	-	-
Total Revenues	3,487,785	3,487,785	3,767,632	279,847	120,000	132,075	12,075	5,547,443	6,884,547	1,337,104	545,000	631,794	86,794
EXPENDITURES													
Culture and recreation program activities	7,552,686	11,900,910	9,556,026	2,364,884	7,896,083	7,507,708	388,375	5,548,624	1,423,498	4,125,126	-	-	-
Payments to King County for debt service	1,997,145	1,997,145	1,997,145	-	171,100	171,100	-	-	-	-	-	-	-
Total Expenditures	9,549,831	13,898,055	11,553,171	2,364,884	8,067,183	7,678,808	388,375	5,548,624	1,423,498	4,125,126	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(6,062,046)	(10,410,270)	(7,765,539)	2,644,731	(7,947,183)	(7,546,733)	400,450	(1,181)	5,461,049	5,462,230	545,000	631,794	86,794
OTHER FINANCING SOURCES (USES)													
Advances from King County	-	4,348,224	3,000,000	(1,348,224)	-	-	-	-	-	-	-	-	-
Transfers in	3,746,364	3,746,364	3,724,723	(21,641)	7,297,425	7,259,579	(37,846)	-	-	-	20,223	20,223	-
Transfers out	(20,223)	(20,223)	(20,223)	-	(617,365)	(537,697)	79,668	(154,579)	(178,856)	(24,277)	(10,271,844)	(10,267,749)	4,095
Total Other Financing Sources (uses)	3,726,141	8,074,365	6,704,500	(1,369,865)	6,680,060	6,721,882	41,822	(154,579)	(178,856)	(24,277)	(10,251,621)	(10,247,526)	4,095
Net changes in fund balances	(2,335,905)	(2,335,905)	(1,061,039)	1,274,866	(1,267,123)	(824,851)	442,272	(155,761)	5,282,193	5,437,954	(9,706,621)	(9,615,732)	90,889

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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Notes to Financial Statements
December 31, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cultural Development Authority of King County (CDA) dba 4Culture have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Reporting Entity

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

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the CDA. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The CDA reported no business-type activities in 2019.

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

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

Basis of Accounting, Measurement Focus, and Financial Statement Presentation

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Major Governmental Funds

All funds used by the CDA in 2019 are classified as major governmental funds, as follows:

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

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

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

The Cultural Special Account Special Revenue Fund is used to receive and manage 40% of the CDA's annual lodging tax revenues through 2012 in accordance with the State of Washington RCW 67.28.180, KCC chapters 4.08.195 and 4.42.025, and CDA policy. The account may only be used for art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts. As noted above, current legislation temporarily discontinues the use of lodging tax receipts for cultural

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December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

purposes in King County until 2021. The CDA has designated the Cultural Special Account Fund as the funding source for lodging tax program expenditures during this interim period.

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. Budget legal authority is at the fund level. The original adopted budget was modified to include estimated expenditures for a new capital facility investment program.

Assets, Liabilities, Fund Balances, Net Position

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.

Investments – Investments are reported at fair market value as described in Note 3.

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

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

Compensated Absences – A liability for compensated absences related to accrued vacation is included in accounts payable and accrued liabilities in the government-wide financial statements. 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 60 days of vacation may be accrued. An employee leaving employment is entitled to be paid for unused vacation leave, and, if leaving employment due to death or retirement with at least five years of service, for 35 percent of the value of unused sick leave. Due to the relative infrequency of occurrence and immateriality of amounts, the expense for payments of unused sick leave upon retirement is recognized at the time of retirement.

Other

Use of Estimates in these financial statements - 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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

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

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the CDA's deposits may not be recovered. As of December 31, 2019, the CDA's total deposits, excluding investments in the WA State LGIP, were \$1.2 million in carrying amount and \$1.6 million of bank balance, of which \$0.50 million and \$0.65 million, respectively, was exposed to custodial credit risk as uninsured and uncollateralized.

Investments

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

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

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

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

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

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Notes to Financial Statements
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NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

In the schedule below, all investments are recorded at fair value measurements using significant other observable inputs including issuer spread scales created by Interactive Data based on the new issue market, secondary trading, and dealer quotes (Level 2 inputs), except for U.S Treasury notes, which are recorded at fair value measurements using quoted market prices (Level 1 inputs), and the Washington State LGIP and money market fund investments, which are recorded at amortized cost. The schedule below shows the types of investments, the average interest rate and the effective duration limits of all CDA investments as of December 31, 2019:

<u>Investment Type</u>	<u>Recorded Value</u>	<u>Cost</u>	<u>Average Interest Rate</u>	<u>Effective Duration(Yrs)</u>
Washington State LGIP	\$ 24,401,933	\$ 24,401,933	1.75%	0.003
Federal Home Loan Bank Bonds	5,000,740	5,005,160	3.58%	0.380
Federal National Mortgage Assn Notes	5,689,997	5,714,622	1.46%	1.003
U.S. Treasury Notes	761,983	760,012	2.63%	0.625
Other / Money Market Fund	<u>(26)</u>	<u>(26)</u>	<u>0.00%</u>	<u>0.003</u>
Subtotals	<u>\$ 35,854,627</u>	<u>\$ 35,881,701</u>	<u>1.98%</u>	<u>0.230</u>
Less WA State LGIP (cash equivalent)	<u>(24,401,933)</u>			
Total investments per Stmt of Net Position	<u>\$ 11,452,694</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, 2019, the combined weighted average effective duration of the CDA’s portfolio was 0.230 years.

Credit risk - Credit risk is the risk that an issuer will not fulfill its obligations. At December 31, 2019 all issuers of investments in the CDA portfolio had a Standard & Poor’s rating of “AA+”. The Washington State Local Government Investment Pool is not rated.

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the CDA’s investment in a single issuer. At December 31, 2019, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: WA State Local Government Investment Pool – 68%, Federal Home Loan Banks – 14%, and Federal National Mortgage Association – 16%.

NOTE 3 – NONCURRENT PREPAID RENT

Under the terms of a lease for office space entered into in 2005, certain advance lease transfer payments were recorded as noncurrent prepaid rent. The prepaid rent is being amortized on a straight-line basis over the 29-year life of the lease; annual amortization amounts are \$20,220. Prepaid rent consisted of the following at December 31, 2019:

Prepaid rent, original cost	\$ 583,089
Accumulated amortization	<u>(289,863)</u>
Net book value	<u>\$ 293,226</u>
Current portion	<u>(20,220)</u>
Prepaid rent, noncurrent	<u>\$ 273,006</u>

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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NOTE 4 – PENSION PLANS

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are calculated as 2% times the member's Average Final Compensation (AFC) times the member's years of service. AFC is the average of the member's 24 consecutive highest-paid service credit months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service or at age 60 with at least five years of service. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from inactive status before age 65 may also receive actuarially reduced benefits. Other benefits include an optional Cost-of-Living Adjustment (COLA).

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits for Plan 2 are calculated as 2% times the member's Average Final Compensation (AFC) times the member's years of service. Defined benefits for Plan 3 are calculated using 1% times the member's AFC times the member's years of service. AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a Cost-of-Living Adjustment (COLA) based on the Consumer Price Index, capped at 3% annually.

Each biennium, the state Pension Funding Council adopts employer contribution rates for each PERS plan; all employers are required to contribute at the level established by the Legislature. The required employer contribution rate expressed as a percentage of current-year covered payroll is 12.86% as of December 31, 2019 for all plans. The required employee contribution rate as of December 31, 2019 is 6% for Plan 1, 7.9% for Plan 2, and ranges from 5 to 15% based on member choice for Plan 3. Both the CDA and the employees made the required contributions. The CDA made contributions of \$127,642 and \$165,881 to the PERS 1 and PERS 2/3 plans, respectively, for the year ended December 31, 2019.

In accordance with the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, the CDA recognized a net pension liability for its proportionate share of the DRS' collective net pension liabilities at June 30, 2019. The CDA recorded a total net pension liability of \$803,520 as of June 30, 2019, composed of \$624,755 and \$178,765 for PERS 1 and PERS 2/3, respectively, and representing its proportionate share of 0.016% and 0.018% of the collective net pension liability for PERS 1 and PERS 2/3, respectively. The CDA recognized pension expense totaling \$79,689 for the year ending December 31, 2019, composed of \$16,612 and \$63,077 for PERS 1 and PERS 2/3, respectively.

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to June 30, 2019. The following actuarial assumptions were used:

Inflation: 2.75% total economic inflation, 3.50% salary inflation

Salary Increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity

Investment Rate of Return: 7.40%

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NOTE 4 – PENSION PLANS (Continued)

Mortality rates were based on the RP-2000 report’s “Combined Healthy Table” and “Combined Disabled Table,” which the Society of Actuaries published. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetimes. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the 2007-2012 Experience Study Report and the 2018 Economic Experience Study.

Discount Rate: The discount rate used to measure the total pension liability was 7.40%. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan’s fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long term expected rate of return, a 7.40% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers were assumed to continue being made at contractually required rates (including PERS Plan 2/3, PSERS Plan 2 and SERS Plan 2/3 employers, whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% on pension plan investments was applied to determine the total pension liability.

Estimated Rates of Return by Asset Class: The expected future rates of return (expected returns, net of pension plan investment expense, including inflation) are developed by the Washington State Investment Board (WSIB) for each major asset class. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	<u>23%</u>	9.30%
	100%	

The table below presents the CDA’s proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the CDA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	<u>1% Decrease (6.4%)</u>	<u>Current Rate (7.4%)</u>	<u>1% Increase (8.4%)</u>
PERS 1	\$ 782,392	\$ 624,755	\$ 487,984
PERS 2/3	<u>1,371,060</u>	<u>178,765</u>	<u>(799,591)</u>
Total	<u>\$ 2,153,452</u>	<u>\$ 803,520</u>	<u>\$ (311,607)</u>

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NOTE 4 – PENSION PLANS (Continued)

At December 31, 2019, the CDA reported total deferred outflows of resources related to pensions of \$265,562 and total deferred inflows of resources related to pensions of \$430,302 from the following sources:

	<u>PERS 1</u>	<u>PERS 2/3</u>
<u>Deferred Outflows:</u>		
Differences between expected and actual experience	\$ -	\$ 51,217
Changes of assumptions	-	4,578
Changes in proportionate share	-	52,243
Contributions subsequent to measurement date	<u>68,780</u>	<u>88,745</u>
Total deferred outflows	<u>\$ 68,780</u>	<u>\$ 196,782</u>
 <u>Deferred Inflows:</u>		
Differences between expected and actual experience	\$ -	\$ 38,434
Net difference between projected and actual investment earnings	41,739	260,210
Changes of assumptions	-	75,004
Changes in proportionate share	<u>-</u>	<u>14,916</u>
Total deferred inflows	<u>\$ 41,739</u>	<u>\$ 388,563</u>

Deferred outflows of resources of \$157,525 related to pensions resulting from CDA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other net amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows: 2020 – (\$78,501), 2021 – (\$146,175), 2022 – (\$57,816), 2023 – (\$25,409), 2024 – (\$13,801), thereafter – (\$563).

NOTE 5 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

The CDA is required to accrue other postemployment benefits (OPEB) expense related to its postretirement health care based on a computed total OPEB liability. The following table represents the aggregate OPEB amounts for the plan subject to the requirements of GASB 75 for the year ended December 31, 2019:

OPEB liabilities	\$1,174,611
OPEB assets	-
Deferred outflows of resources	9,054
Deferred inflows of resources	-
OPEB expense	(50,755)

OPEB Plan Description

The CDA's OPEB plan is a single-employer defined-benefit health care plan administered by the Public Employees Benefit Board (PEBB). The plan provides medical and dental benefits to eligible retirees, their spouses and children.

At June 30, 2019, there were 33 total employees in the plan, including 4 inactive employees or beneficiaries currently receiving benefits, no inactive employees entitled to but not yet receiving benefits, and 29 active employees.

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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NOTE 5 - DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

Actuarial Methods and Assumptions

The total OPEB liability was calculated using the alternate measurement method model provided by the Office of the State Actuary with an actuarial valuation and measurement date of 6/30/19, using the entry age actuarial cost method. The actuarial assumptions included a discount rate of 3.87% and 3.50%, respectively, for the beginning and end of the measurement year, projected salary changes of 3.50% plus service-based increases, and an inflation rate of 2.75%. The actuarial assumptions included an initial healthcare cost trend rate of 7%, trending down to about 5% in 2020.

The following presents the total OPEB liability calculated using the current healthcare cost trend rate of 7.0 percent decreasing to 5.0 percent by 2020, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate.

	1% Decrease <u>(6.0%)</u>	Current Rate <u>(7.0%)</u>	1% Increase <u>(8.0%)</u>
Total OPEB liability	\$ 957,525	\$ 1,174,611	\$ 1,461,331

The following represents the total OPEB liability calculated using a discount rate of 3.50 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) than the current rate.

	1% Decrease <u>(2.5%)</u>	Current Rate <u>(3.5%)</u>	1% Increase <u>(4.5%)</u>
Total OPEB liability	\$ 1,417,599	\$ 1,174,611	\$ 983,606

Changes in the Total OPEB Liability

Total OPEB liability at January 1, 2019	\$ 1,245,964
Changes for the Year:	
Service Cost	59,851
Interest	50,140
Changes in experience data and assumptions	(160,746)
Benefit payments	<u>(20,598)</u>
Net Changes	<u>(71,353)</u>
Total OPEB liability at December 31, 2019	<u>\$ 1,174,611</u>

Deferred outflows of resources of \$9,054 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2020.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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NOTE 6 – RISK MANAGEMENT

The CDA carries comprehensive general liability and auto liability coverage with a limit of \$20 million per occurrence and no aggregate limit. Commercial property losses are covered up to the replacement cost on file with Enduris Washington. The CDA also carries 1) Public official errors and omissions liability coverage with a limit of \$20 million per occurrence and an aggregate limit of \$20 million, 2) Terrorism liability coverage with a limit of \$500,000 per occurrence and an aggregate limit of \$1 million, 3) Employment practices liability coverage with an aggregate limit of \$20 million per member, 4) Crime coverage with faithful performance of duty with an aggregate limit of \$250,000 per member, 5) Cyber coverage with a limit of \$2 million per occurrence and 6) Identity fraud expense reimbursement with a limit of \$25,000 per occurrence and an aggregate limit of \$25,000. There were no occurrences in the last three years where the amount of settlements exceeded insurance coverage.

The CDA provides its eligible employees with a comprehensive health benefits package through the Public Employees Benefits Board (PEBB), which includes medical, dental, basic life and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto and home insurance. CDA also offers insurance with American Family Life Assurance Company (AFLAC) and MetLife. With the AFLAC and MetLife coverage, CDA employees can pick from a selection of insurance policies at their own expense. CDA benefits-eligible employees can enroll in FSA through WageWorks, Inc.

NOTE 7 – UNEARNED REVENUES

In 2019 the CDA and King County continued their partnership in the Building for Culture program, a major cultural capital facility investment program of approximately \$26 million for 100 cultural facility projects in the region. King County issued bonds in 2016 to finance the program, which is managed by the CDA. The CDA recognizes revenue as earned for this program to the extent that expenditures are incurred in the current fiscal year. Unexpended amounts for this program are recognized as unearned revenues in the government-wide and fund financial statements.

The following reflects the status of the Building for Culture capital program as of December 31, 2019:

Contracted with recipient, cash received from King County	\$ 26,210,716
Paid to recipients, 2016-2019	<u>(26,175,794)</u>
Unearned revenues, fund balance sheet, Building for Culture	34,922
1% for Art fund balance	<u>11,700,856</u>
Unearned revenues, g-w statement of net position	<u>\$ 11,735,778</u>

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

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

In 2019, the CDA transferred \$2,168,245 to King County as payments for County debt service requirements, including \$1,270,000 for County bond principal and \$898,245 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>
2020	\$ 1,290,000	\$ 875,450	\$ 2,165,450
2021	364,312	103,988	468,300
2022	202,823	97,177	300,000
2023	212,947	87,053	300,000
2024	223,602	76,398	300,000
2025-2029	1,281,872	219,128	1,500,000
2030	<u>288,462</u>	<u>11,538</u>	<u>300,000</u>
Totals	<u>\$ 3,864,018</u>	<u>\$ 1,469,732</u>	<u>\$ 5,333,750</u>
Due within one year	<u>1,290,000</u>		
Due in more than one year	<u>\$ 2,574,018</u>		

The CDA also recognizes a noncurrent liability on its government-wide statement of net position for advances from King County in support of the CDA's Building 4Equity capital facility investment program. Under an agreement between the CDA and King County, King County will advance up to \$20 million to the CDA for the program beginning in 2019. The CDA will begin repayment of the advances in 2021, with annual repayments to King County in the amount of the lesser of \$2 million or 15% of the CDA's annual lodging tax revenue. Interest expense on the advances is accrued monthly based on the King County Investment Pool Monthly Gross Earnings Rate, which was 2.08% at December 31, 2019. In 2019, total advances from King County to the CDA for the program were \$3,000,000 and 2019 interest expense accrued on the advances was \$19,860.

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

The following table summarizes the changes in noncurrent liabilities for the year ended December 31, 2019:

	<u>Balance</u> <u>01/01/19</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/19</u>	<u>Due Within</u> <u>One Year</u>
Debt service to King County	\$ 5,134,018	\$ -	\$ (1,270,000)	\$3,864,018	\$1,290,000
Advances from King County	-	3,019,860	-	3,019,860	-
Net pension liability	1,061,139	585,496	(843,115)	803,520	-
Total OPEB liability	1,245,964	109,991	(181,344)	1,174,611	18,108
Compensated absences liability	<u>148,389</u>	<u>164,305</u>	<u>(102,791)</u>	<u>209,903</u>	<u>9,446</u>
Total noncurrent liabilities	<u>\$ 7,589,510</u>	<u>\$ 3,879,652</u>	<u>\$ (2,397,250)</u>	<u>\$9,071,912</u>	<u>\$1,317,554</u>

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NOTE 9 – LEASES AND OTHER COMMITMENTS

Operating Leases

The CDA leases office space under a lease expiring June 30, 2034. 2019 lease expense for office space was \$157,415. Minimum annual lease payments for 2020 are approximately \$147,000 with two percent annual increases thereafter. In addition, the CDA leases office equipment under noncancelable leases with various expiration dates. 2019 lease expense for office equipment was \$6,619; future minimum annual lease payments are approximately \$7,000.

Contracts and Awards

Each year, the CDA awards numerous grants to local arts and heritage organizations through the Lodging Tax Revenues program. In addition, the CDA administers various other grants awarded by King County. The majority of these grants are reimbursement grants to the recipient for specific expenditures identified in the grant contract. Under generally accepted accounting principles, the CDA does not recognize a 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, 2019 that are not recognized as liabilities in these financial statements was \$4,453,396 for the Lodging Tax Revenues program and \$3,944,332 of other King County and CDA grants.

NOTE 10 – INTERFUND TRANSFERS

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Cultural Special Account Fund	Lodging Tax Special Revenue Fund	\$ 7,259,579
Cultural Special Account Fund	General Fund	3,008,170
Lodging Tax Special Revenue Fund	General Fund	534,897
1% for Art Special Revenue Fund	General Fund	178,856
General Fund	Cultural Special Account Fund	20,223
General Fund	Lodging Tax Special Revenue Fund	2,800
Total Transfers		<u>\$11,004,525</u>

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

NOTE 11 – RESTRICTIONS AND COMPONENTS OF FUND BALANCE

Net Position

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

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NOTE 11 – RESTRICTIONS AND COMPONENTS OF FUND BALANCE (Continued)

Components of Fund Balance

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

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

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

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

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

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

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

NOTE 12 – OTHER DISCLOSURES

Related Parties

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

Significant Revenue Concentration

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

Designation of Future Revenues

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

NOTE 12 – OTHER DISCLOSURES (Continued)

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Subsequent Events

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

In response to the virus' impact on the cultural community, the CDA redirected certain 2020 budgeted expenditures towards immediate relief for the cultural community. No other financial impact on the CDA is anticipated in 2020; however, beginning in 2021 the CDA's operations are heavily dependent on lodging tax revenues which have been negatively impacted by the events noted above. The CDA is evaluating potential future program reductions in the event that future lodging tax revenues are insufficient to meet planned program needs.

The length of time these measures will be in place, and the full extent of the financial impact on the CDA is unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of CDA's Proportionate Share of Net Pension Liability
Measurement Date of June 30

	2019		2018		2017		2016		2015	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
CDA's proportion of the net pension liability	0.016247%	0.018404%	0.016611%	0.018700%	0.016560%	0.018918%	0.016275%	0.016891%	0.015988%	0.016221%
CDA's proportionate share of the net pension liability	\$ 624,755	\$ 178,765	\$ 741,853	\$ 319,286	\$ 785,785	\$ 657,310	\$ 874,044	\$ 850,449	\$ 836,321	\$ 579,586
CDA's covered-employee payroll	\$ 976,640	\$ 1,269,220	\$ 936,184	\$ 1,216,644	\$ 925,530	\$ 1,073,634	\$ 885,598	\$ 935,568	\$ 842,840	\$ 828,815
CDA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	63.97%	14.08%	79.24%	26.24%	84.90%	61.22%	98.70%	90.90%	99.23%	69.93%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	97.77%	63.22%	95.77%	61.24%	90.97%	57.03%	85.82%	59.10%	89.20%

Schedule of CDA Contributions
Fiscal Year Ended December 31

	2019		2018		2017		2016		2015	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Contractually required contribution	\$ 127,642	\$ 165,881	\$ 115,199	\$ 149,710	\$ 110,718	\$ 128,435	\$ 101,524	\$ 107,252	\$ 85,884	\$ 84,454
Contribution in relation to the contractually required contribution	\$ 127,642	\$ 165,881	\$ 115,199	\$ 149,710	\$ 110,718	\$ 128,435	\$ 101,524	\$ 107,252	\$ 85,884	\$ 84,454
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CDA's covered-employee payroll	\$ 993,751	\$ 1,291,456	\$ 904,354	\$ 1,175,277	\$ 931,591	\$ 1,080,664	\$ 908,084	\$ 959,322	\$ 848,220	\$ 834,105
Contributions as a percentage of covered-employee payroll	12.84%	12.84%	12.74%	12.74%	11.88%	11.88%	11.18%	11.18%	10.13%	10.13%

REQUIRED SUPPLEMENTAL INFORMATION

Cultural Development Authority of King County
 Schedule of Changes in Total OPEB Liability and Related Ratios
 For the Year Ended June 30,

	2019	2018
Total OPEB liability - beginning	1,245,964	1,218,157
Service cost	59,851	65,283
Interest	50,140	45,773
Changes in benefit terms		
Differences between expected and actual experience		
Changes in experience data and assumptions	(160,746)	(73,417)
Benefit payments	(20,598)	(9,832)
Other changes		
Total OPEB liability - ending	1,174,611	1,245,964
Covered-employee payroll	2,245,860	2,152,828
Total OPEB liability as a % of covered payroll	52.3%	57.9%

Notes to Schedule:

The CDA implemented GASB 75 in 2018.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

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In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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