



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Cultural Development Authority of King County

(4Culture)

For the period January 1, 2020 through December 31, 2020

Published March 10, 2022

Report No. 1030033



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

March 10, 2022

Board of Directors
4Culture
Seattle, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on 4Culture's financial statements and compliance with federal laws and regulations.

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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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

4Culture

January 1, 2020 through December 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of 4Culture are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities and each major fund in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Authority.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Authority’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
21.019	COVID-19 – Coronavirus Relief Fund

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Authority did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2020-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

4Culture

January 1, 2020 through December 31, 2020

2020-001 The Authority did not have effective internal controls in place for ensuring accurate and reliable financial reporting.

Background

Federal, state and local agencies, the Board of Directors, and public rely on the information included in the financial statements and reports to make decisions. Management for the Cultural Development Authority of King County is responsible for designing, implementing and maintaining internal controls that ensure financial statements are prepared and presented in accordance with generally accepted accounting principles (GAAP).

Government Auditing Standards requires the State Auditor's Office to communicate material weaknesses in internal controls as a finding. The Applicable Laws and Regulations section below defines the standards for material weaknesses.

Description of Condition

The Authority prepares its financial statements under the GAAP method, which recognizes expenditures when incurred or obligated and the corresponding revenue.

King County awarded the Authority \$4.35 million from the Coronavirus Relief Fund and required it to use all funds in fiscal year 2020. The Authority awarded more than 1,300 beneficiary contracts in 2020 using these funds. The Authority recognized those payments to the beneficiaries as expenditures throughout the year. For the unpaid beneficiary contracts awarded in 2020, the Authority did not report those incurred payments as expenditures and liabilities because it did not make these payments until 2021. Additionally, the Authority did not report the corresponding revenues and receivables associated with these expenditures.

The Authority did not have an effective process for reviewing and accruing all revenue and expenditures incurred during fiscal year 2020.

We consider this internal control deficiency to be a material weakness.

Cause of Condition

The Authority contracts with a CPA consultant to assist with preparing its financial statements to comply with GAAP. However, the Authority does not have procedures for accruing current year contract and award expenditures that are paid in the subsequent year.

Effect of Condition

Because of the deficiencies in internal controls, we identified the following misstatements:

- Program support from King County was understated by \$1,131,109
- Cultural and recreation program activities was understated by \$851,517
- Due from King County was understated by \$1,131,109
- Accounts payable and other accrued liabilities was understated by \$851,517

The Authority subsequently corrected these misstatements.

Recommendation

We recommend the Authority strengthen its internal controls and provide adequate oversight of financial reporting, including conducting a detailed review of the financial statements. We further recommend the Authority establish and follow a process to recognize expenditures when incurred or obligated and the corresponding revenue in accordance with GAAP.

Authority's Response

The Cultural Development Authority of King County (the CDA), dba 4Culture, would like to thank the State Auditor's Office for its assistance in the CDA's annual financial and accountability audits. The CDA welcomes transparency in its financial operations and is committed to excellence in its financial reporting and stewardship of public funds. The CDA acknowledges that it is the responsibility of its management and governing body to ensure that its financial statements meet all accounting standards and to design and implement internal controls that provide reasonable assurance that financial information is accurately authorized, processed and reported.

The CDA acknowledges certain expenditures as identified by the State Auditor and corresponding revenues should have been reported in 2020 instead of 2021. The CDA believes the net impact of this timing issue on its 2020 financial statements is immaterial. As noted above, the CDA corrected these misstatements and accordingly the State Auditor will issue an unmodified opinion regarding the CDA's 2020 financial statements. The cause of this timing issue has been identified and is being corrected.

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

Auditor's Remarks

We appreciate the Authority's commitment to resolve this finding and thank the Authority for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

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, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 2, 2022.

As discussed in Note 11 to the 2020 financial statements, the full extent of the financial impact of the COVID-19 pandemic is unknown. Management's plans in response to this matter are also described in Note 11.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2020-001 to be material weaknesses.

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*.

AUTHORITY'S RESPONSE TO FINDINGS

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

March 2, 2022

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

4Culture January 1, 2020 through December 31, 2020

Board of Directors
4Culture
Seattle, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of 4Culture, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2020. The Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy, State Auditor

Olympia, WA

March 2, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

4Culture

January 1, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 18.

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, 2020, 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 11 to the 2020 financial statements, the full extent of the financial impact of the COVID-19 pandemic is unknown. Management's plans in response to this matter are also described in Note 11. 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 18 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2022 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

March 2, 2022

4Culture
January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Activities – 2020

Balance Sheet - Governmental Funds – 2020

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2020

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual
Comparison – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of CDA's Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3
– 2020

Schedule of CDA Contributions – PERS 1 and PERS 2/3 – 2020

Schedule of Changes in Total OPEB Liability and Related Ratios – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2020

Notes to the Schedule of Expenditures of Federal Awards – 2020

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2020

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, 2020. This information should be considered in conjunction with the CDA's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS – 2020

As of December 31, 2020, the CDA's total net position was \$5.5 million, all of which was restricted and expendable for cultural programs. Total net position of the CDA decreased by \$10.4 million, or 65.3%, for the year ended December 31, 2020. This decrease was composed of \$6.0 million of total revenues and \$16.4 million of total expenses.

As of December 31, 2020, the CDA's total fund balances were \$29.0 million, substantially all of which was restricted for specific purposes. Total fund balances of the CDA decreased by \$7.6 million, or 20.8%, for the year ended December 31, 2020. This decrease was composed of \$5.5 million of total fund revenues, \$17.2 million of total fund expenditures and \$4.1 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 2020 are all classified as governmental activities, which are principally supported by intergovernmental revenues. The CDA reported no business-type activities in 2020, 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 2020 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, 2020

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, 2020, the total net position of the CDA was \$5,539,750, a decrease of 65.3% 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>2020</u>	<u>2019</u>
Assets:		
Cash and cash equivalents	\$26,055,672	\$25,635,061
Investments	2,013,205	11,452,694
Other assets	<u>2,688,844</u>	<u>367,186</u>
Total assets	<u>30,757,721</u>	<u>37,454,941</u>
 Deferred Outflows	 340,478	 274,616
Liabilities:		
Current liabilities	12,685,658	12,244,675
Noncurrent liabilities	<u>12,636,491</u>	<u>9,071,912</u>
Total liabilities	<u>25,322,149</u>	<u>21,316,587</u>
 Deferred Inflows	 236,300	 430,302
Net Position:		
Net investment in capital assets	-	-
Restricted for arts and cultural purposes	5,539,750	15,982,668
Unrestricted	<u>-</u>	<u>-</u>
Total net position	<u>\$ 5,539,750</u>	<u>\$15,982,668</u>

Current liabilities include \$11.2 million of unearned revenues related to the One Percent (1%) for Art program. Noncurrent liabilities include \$2.9 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, \$7.2 million in advances from King County for the Building for Equity capital investment program, \$0.9 million of total OPEB liability and \$1.6 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 was expected to significantly decrease each year through 2020 as the Cultural Special Account Fund was drawn down for use for program expenditures as a result of legislation that temporarily discontinued 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, 2020

Analysis of Changes in Net Position

The CDA's total net position decreased \$10,442,918, or 65.3%, during 2020. 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>2020</u>	<u>2019</u>
Revenues:		
Program support from King County	\$ 5,679,987	\$ 4,750,518
Other program revenues	31,045	294,644
Investment earnings, net	<u>280,222</u>	<u>1,088,694</u>
Total revenues	<u>5,991,254</u>	<u>6,133,856</u>
Expenses:		
Culture and recreation program activities	<u>16,434,172</u>	<u>19,168,859</u>
Total expenses	<u>16,434,172</u>	<u>19,168,859</u>
Total increase (decrease) in net position	<u>\$(10,442,918)</u>	<u>\$(13,035,003)</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 decreased in 2020 primarily due to reduced Building for Culture and Building for Equity program expenditures, partially offset by CARES Act expenditures. 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, 2020 were \$29.0 million, a decrease of \$7.6 million (20.8%) over the fund balances of the previous year. Total fund balances included (1) \$5.8 million in the General Fund; (2) \$6.8 million in the Lodging Tax Special Revenue Fund; (3) \$11.2 million in the One Percent (1%) for Art Special Revenue Fund; and (4) \$5.2 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 \$7.6 million for the year ended December 31, 2020. This decrease was composed of (1) \$5.5 million of total fund revenues, (2) \$17.2 million of total fund expenditures and (3) \$4.1 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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2020

Total fund revenues of \$5.5 million in 2020 included \$4.3 million of recognized program revenues for CARES Act program expenditures. Other revenues included investment earnings, miscellaneous King County program support, fees from consulting services and grants and contributions from other sources.

Total expenditures of \$17.2 million in 2020 included (1) \$7.0 million of expenditures for the lodging tax awards program, (2) \$4.3 million of expenditures Related to CARES Act pass-through expenditures and (3) \$2.2 million of expenditures for required debt service payments on King County debt. Other expenditures were for Building for Equity program expenditures, other arts and cultural support, public art projects, and management and general supporting activities.

Significant interfund transfers included a \$8.7 million net transfer from the Cultural Special Account Fund to the Lodging Tax Special Revenue Fund and a \$2.8 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 \$4.4 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 \$1.1 million under-expenditure for cultural program in the Lodging Tax Special Revenue Fund due to the timing of payments for cultural programs; 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 discontinued the use of lodging tax receipts for cultural purposes in King County after 2012 until 2021. The CDA had designated the Cultural Special Account Fund as the funding source for lodging tax program expenditures during this interim period.

Beginning in 2021, the CDA's operations are heavily dependent on lodging tax revenues which have been negatively impacted by COVID-19. There is uncertainty at this time on the timing and projected amount of 2021 lodging tax revenues. The CDA is evaluating potential program reductions and other financial strategies in the event that lodging tax revenues are insufficient to meet planned program needs.

Revenues and expenses to be recognized in the 2021 government-wide statement of activities are expected to remain at 2020 levels in all categories except for (1) projected increase of \$5.8 million in lodging tax revenues, subject to the uncertainty described above; (2) projected net increase of \$4.9 million in program support from King County; and (3) projected net increase of \$0.5 million in expenses for cultural program activities.

Revenues and expenses to be recognized in the 2021 fund financial statements are expected to remain at 2020 levels in all categories except for (1) projected increase of \$5.8 million in Lodging Tax Special Revenue Fund revenues, subject to the uncertainties described above; (2) projected increase of \$4.0 million in One Percent for Art Special Revenue Fund revenues from program support from King County; (3) projected decrease of \$1.3 million in General Fund expenditures for culture program activities; (4) projected decrease of \$1.5 million in Lodging Tax Special Revenue Fund expenditures for culture program activities, and (5) projected increase of \$3.3 million in One Percent for Art Special Revenue Fund expenditures for culture program activities.

The CDA may be eligible to receive COVID-19 related American Rescue Plan funds in 2021 to pass-through to the cultural community. The potential impact on revenues and expenses in the 2021 financial statements is unknown at this time.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Management's Discussion and Analysis
For the Year Ended December 31, 2020

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, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	26,055,672	-	26,055,672
Investments	2,013,205	-	2,013,205
Due from King County	2,350,000	-	2,350,000
Other current assets	86,061	-	86,061
Prepaid rent, noncurrent	252,783	-	252,783
Total assets	30,757,721	-	30,757,721
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows on pensions	333,322		333,322
Deferred outflows on other post retirement bene	7,156		7,156
Total deferred outflows	340,478	-	340,478
LIABILITIES			
Accounts payable and other accrued liabilities	1,437,600	-	1,437,600
Unearned revenues	11,248,058	-	11,248,058
Noncurrent liabilities			
Due within one year	2,391,974	-	2,391,974
Due in more than one year	10,244,517	-	10,244,517
Total liabilities	25,322,149	-	25,322,149
DEFERRED INFLOWS OF RESOURCES	236,300		236,300
NET POSITION			
Net investment in capital assets	-	-	-
Restricted for culture and recreation purposes	5,539,750	-	5,539,750
Unrestricted	-	-	-
Total net position	5,539,750	-	5,539,750

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, 2020

Program	Expenses	Program Revenues			Net Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental Activities:					
Culture and recreation	16,434,172	31,045	5,679,987	-	<u>(10,723,140)</u>
General revenues and transfers:					
Investment earnings					<u>280,222</u>
Total general revenues and transfers					<u>280,222</u>
Change in net position					(10,442,918)
Net Position - January 1, 2020					15,982,668
Net Position - December 31, 2020					<u><u>5,539,750</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, 2020

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Special Account	Total Governmental Funds
ASSETS					
Cash and cash equivalents	4,717,701	6,903,508	11,242,545	3,191,918	26,055,672
Investments	-	-	-	2,013,205	2,013,205
Due from a primary government	2,350,000	-	-	-	2,350,000
Other current assets	37,963	42,448	5,650	-	86,061
TOTAL ASSETS	<u>7,105,664</u>	<u>6,945,956</u>	<u>11,248,195</u>	<u>5,205,123</u>	<u>30,504,938</u>
LIABILITIES					
Accounts payable	1,098,447	57,932	6,160	-	1,162,539
Payroll and other accrued liabilities	90,784	155,378	28,899	-	275,061
Unearned Revenues	34,922	-	-	-	34,922
Due to a primary government	-	-	-	-	-
Total Liabilities	<u>1,224,153</u>	<u>213,310</u>	<u>35,059</u>	<u>-</u>	<u>1,472,522</u>
FUND BALANCES					
Nonspendable	37,962	42,448	5,650	-	86,060
Restricted	5,843,549	6,690,198	11,207,486	5,205,123	28,946,356
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>5,881,511</u>	<u>6,732,646</u>	<u>11,213,136</u>	<u>5,205,123</u>	<u>29,032,416</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>7,105,664</u>	<u>6,945,956</u>	<u>11,248,195</u>	<u>5,205,123</u>	<u>30,504,938</u>

Reconciliation of total governmental fund balances to net position

Total fund balances	29,032,416
Certain public art unearned revenues are not due and payable in the current period and are not reported on the fund balance sheet	(11,213,136)
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	(12,636,491)
Deferred outflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	340,478
Deferred inflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	(236,300)
Noncurrent prepaid rent is not a current financial resource and is not reported on the fund balance sheet	252,783
Total net position of governmental activities	<u>5,539,750</u>

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, 2020

	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	4,626,120	-	242,452	-	4,868,572
Lodging Tax Gross Receipts	-	-	-	-	-
Investment Earnings	20,902	31,977	74,477	152,866	280,222
Miscellaneous	354,740	-	-	-	354,740
Total Revenues	5,001,762	31,977	316,929	152,866	5,503,534
EXPENDITURES					
Culture and recreation program activities	7,396,965	7,021,971	674,848	-	15,093,784
Payments to King County for debt	1,995,650	169,800	-	-	2,165,450
Total Expenditures	9,392,615	7,191,771	674,848	-	17,259,234
Excess (deficiency) of revenues over (under) expenditures	(4,390,853)	(7,159,794)	(357,919)	152,866	(11,755,700)
OTHER FINANCING SOURCES (USES)					
Advances from King County	4,150,000				4,150,000
Transfers in	3,459,907	8,669,065	-	20,223	12,149,195
Transfers out	(20,223)	(520,163)	(129,801)	(11,479,008)	(12,149,195)
Total Other Financing Sources (uses)	7,589,684	8,148,902	(129,801)	(11,458,785)	4,150,000
Net changes in fund balances	3,198,831	989,108	(487,720)	(11,305,919)	(7,605,700)
Fund Balances - January 1, 2020	2,682,680	5,743,538	11,700,856	16,511,042	36,638,116
Fund Balances - December 31, 2020	5,881,511	6,732,646	11,213,136	5,205,123	29,032,416

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

Net change in fund balances - total governmental funds	(7,605,700)
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	487,720
Certain net pension and OPEB liability changes increase net position but do not increase current financial resources of funds	(267,488)
Payments to King County for principal debt service consume current financial resources of funds but do not affect net position	1,290,000
Advances from King County provide current financial resources but do not affect net position	(4,150,000)
Interest expense on advances from King county reduce net position but do not decrease current financial resources of funds	(90,556)
Certain compensated absences liability changes reduce net position but do not decrease current financial resources of funds	(86,671)
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	(10,442,918)

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, 2020

	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	276,120	4,626,120	4,626,120	-	-	-	-	454,358	242,452	(211,906)	-	-	-
Lodging Tax Gross Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment Earnings	43,750	43,750	20,902	(22,848)	78,750	31,977	(46,773)	148,750	74,477	(74,273)	215,750	152,866	(62,884)
Miscellaneous	150,000	150,000	354,740	204,740	-	-	-	-	-	-	-	-	-
Total Revenues	469,870	4,819,870	5,001,762	181,892	78,750	31,977	(46,773)	603,108	316,929	(286,179)	215,750	152,866	(62,884)
EXPENDITURES													
Culture and recreation program activities	7,482,488	11,832,488	7,396,965	4,435,523	8,157,328	7,021,971	1,135,357	4,800,312	674,848	4,125,464	-	-	-
Payments to King County for debt service	1,995,650	1,995,650	1,995,650	-	169,800	169,800	-	-	-	-	-	-	-
Total Expenditures	9,478,138	13,828,138	9,392,615	4,435,523	8,327,128	7,191,771	1,135,357	4,800,312	674,848	4,125,464	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(9,008,268)	(9,008,268)	(4,390,853)	4,617,415	(8,248,378)	(7,159,794)	1,088,584	(4,197,204)	(357,919)	3,839,285	215,750	152,866	(62,884)
OTHER FINANCING SOURCES (USES)													
Advances from King County	5,400,000	5,400,000	4,150,000	(1,250,000)	-	-	-	-	-	-	-	-	-
Transfers in	3,418,060	3,418,060	3,459,907	41,847	8,847,385	8,669,065	(178,320)	-	-	-	20,223	20,223	-
Transfers out	(20,223)	(20,223)	(20,223)	-	(629,341)	(520,163)	109,178	(157,096)	(129,801)	27,295	(1,479,008)	(11,479,008)	0
Total Other Financing Sources (uses)	8,797,837	8,797,837	7,589,684	(1,208,153)	8,218,044	8,148,902	(69,142)	(157,096)	(129,801)	27,295	(1,458,785)	(11,458,785)	0
Net changes in fund balances	(210,431)	(210,431)	3,198,831	3,409,262	(30,334)	989,108	1,019,442	(4,354,300)	(487,720)	3,866,580	(11,243,035)	(11,305,919)	(62,884)

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, 2020

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the CDA. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The CDA reported no business-type activities in 2020.

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

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

Basis of Accounting, Measurement Focus, and Financial Statement Presentation

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2020

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 2020 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 discontinued the use of lodging tax receipts for cultural purposes in King County after 2012 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 pre-design 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 and 100% of the CDA's annual lodging tax revenues beginning in 2021 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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

temporarily discontinued the use of lodging tax receipts for cultural purposes in King County after 2012 until 2021. The CDA had 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
dba 4CULTURE
Notes to Financial Statements
December 31, 2020

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, 2020, the CDA's total deposits, excluding investments in the WA State LGIP, were \$1.29 million in carrying amount and \$1.84 million of bank balance, of which \$0.52 million and \$0.79 million, respectively, was exposed to custodial credit risk as uninsured and uncollateralized.

Investments

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

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

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

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

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
dba 4CULTURE
Notes to Financial Statements
December 31, 2020

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, 2020:

<u>Investment Type</u>	<u>Recorded Value</u>	<u>Cost</u>	<u>Average Interest Rate</u>	<u>Effective Duration(Yrs)</u>
Washington State LGIP	\$ 24,769,790	\$ 24,769,790	0.16%	0.003
Federal National Mortgage Assn Notes	2,013,228	2,006,508	1.38%	0.156
Other / Money Market Fund	<u>(23)</u>	<u>(23)</u>	<u>0.00%</u>	<u>0.003</u>
Subtotals	<u>\$ 26,782,995</u>	<u>\$ 26,776,275</u>	<u>0.25%</u>	<u>0.014</u>
Less WA State LGIP (cash equivalent)	<u>(24,769,790)</u>			
Total investments per Stmt of Net Position	<u>\$ 2,013,205</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, 2020, the combined weighted average effective duration of the CDA's portfolio was 0.014 years.

Credit risk - Credit risk is the risk that an issuer will not fulfill its obligations. At December 31, 2020 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, 2020, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: WA State Local Government Investment Pool – 92% and Federal National Mortgage Association – 8%.

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, 2020:

Prepaid rent, original cost	\$ 583,089
Accumulated amortization	<u>(310,086)</u>
Net book value	<u>\$ 273,003</u>
Current portion	<u>(20,220)</u>
Prepaid rent, noncurrent	<u>\$ 252,783</u>

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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 12.97% as of December 31, 2020 for all plans. The required employee contribution rate as of December 31, 2020 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 \$130,532 and \$190,090 to the PERS 1 and PERS 2/3 plans, respectively, for the year ended December 31, 2020.

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, 2020. The CDA recorded a total net pension liability of \$876,390 as of June 30, 2020, composed of \$619,680 and \$256,710 for PERS 1 and PERS 2/3, respectively, and representing its proportionate share of 0.018% and 0.020% of the collective net pension liability for PERS 1 and PERS 2/3, respectively. The CDA recognized pension expense totaling \$147,038 for the year ending December 31, 2020, composed of \$96,771 and \$50,267 for PERS 1 and PERS 2/3, respectively.

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2019, with the results rolled forward to June 30, 2020. 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, 2019, valuation were based on the results of the 2007-2012 Experience Study Report and the 2019 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, 2020, 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	\$ 776,185	\$ 619,680	\$ 483,192
PERS 2/3	<u>1,597,315</u>	<u>256,710</u>	<u>(847,280)</u>
Total	<u>\$ 2,373,500</u>	<u>\$ 876,390</u>	<u>\$ (364,088)</u>

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NOTE 4 – PENSION PLANS (Continued)

At December 31, 2020, the CDA reported total deferred outflows of resources related to pensions of \$333,322 and total deferred inflows of resources related to pensions of \$236,300 from the following sources:

	<u>PERS 1</u>	<u>PERS 2/3</u>
<u>Deferred Outflows:</u>		
Differences between expected and actual experience	\$ -	\$ 91,898
Changes of assumptions	-	3,656
Changes in proportionate share	-	77,838
Contributions subsequent to measurement date	<u>65,410</u>	<u>94,520</u>
Total deferred outflows	\$ 65,410	\$267,912
 <u>Deferred Inflows:</u>		
Differences between expected and actual experience	\$ -	\$ 32,172
Net difference between projected and actual investment earnings	3,450	13,037
Changes of assumptions	-	175,355
Changes in proportionate share	<u>-</u>	<u>12,286</u>
Total deferred inflows	\$ 3,450	\$232,850

Deferred outflows of resources of \$159,930 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, 2021. Other net amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows: 2021 – (\$106,689), 2022 – (\$10,467), 2023 – \$24,827, 2024 – \$38,209, 2025 – (\$4,649), thereafter – (\$4,140).

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, 2020:

OPEB liabilities	\$ 1,629,093
OPEB assets	-
Deferred outflows of resources	7,156
Deferred inflows of resources	-
OPEB expense	467,749

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, 2020, there were 36 total employees in the plan, including 5 inactive employees or beneficiaries currently receiving benefits, no inactive employees entitled to but not yet receiving benefits, and 31 active employees.

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

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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 6/30/20, using the entry age actuarial cost method. The actuarial assumptions included a discount rate of 3.50% and 2.21%, 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	\$ 1,291,996	\$ 1,629,093	\$2,086,636

The following represents the total OPEB liability calculated using a discount rate of 2.21 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.21 percent) or 1-percentage point higher (3.21 percent) than the current rate.

	1% Decrease <u>(1.21%)</u>	Current Rate <u>(2.21%)</u>	1% Increase <u>(3.21%)</u>
Total OPEB liability	\$ 2,005,671	\$ 1,629,093	\$ 1,337,742

Changes in the Total OPEB Liability

Total OPEB liability at January 1, 2020	\$1,174,611
Changes for the Year:	
Service Cost	63,297
Interest	43,097
Changes in experience data and assumptions	361,355
Benefit payments	<u>(13,267)</u>
Net Changes	<u>454,482</u>
Total OPEB liability at December 31, 2020	<u>\$ 1,629,093</u>

Deferred outflows of resources of \$7,156 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, 2021.

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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 – 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 2020, the CDA transferred \$2,165,450 to King County as payments for County debt service requirements, including \$1,290,000 for County bond principal and \$875,450 for County interest expense. Future scheduled payments to King County for County debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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	234,801	65,199	300,000
2026-2030	<u>1,335,533</u>	<u>164,467</u>	<u>1,500,000</u>
Totals	<u>\$ 2,574,018</u>	<u>\$ 594,282</u>	<u>\$ 3,168,300</u>
Due within one year	<u>364,312</u>		
Due in more than one year	<u>\$ 2,209,706</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 is scheduled to 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 1.03% at December 31, 2020. In 2020, new advances from King County to the CDA for the program were \$4,150,000 and 2020 interest expense accrued on the advances was \$90,556.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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 Notes to Financial Statements
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NOTE 7 – LONG-TERM DEBT AND CHANGES IN NONCURRENT LIABILITIES (Continued)

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, 2020:

	<u>Balance</u> <u>01/01/20</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/20</u>	<u>Due Within</u> <u>One Year</u>
Debt service to King County	\$ 3,864,018	\$ -	\$ (1,290,000)	\$ 2,574,018	\$ 364,312
Advances from King County	3,019,860	4,240,556	-	7,260,416	2,000,000
Net pension liability	803,520	670,870	(598,000)	876,390	-
Total OPEB liability	1,174,611	467,749	(13,267)	1,629,093	14,316
Compensated absences liability	<u>209,903</u>	<u>169,138</u>	<u>(82,467)</u>	<u>296,574</u>	<u>13,346</u>
Total noncurrent liabilities	<u>\$ 9,071,912</u>	<u>\$ 5,548,313</u>	<u>\$ (1,983,734)</u>	<u>\$12,636,491</u>	<u>\$2,391,974</u>

NOTE 8 – LEASES AND OTHER COMMITMENTS

Operating Leases

The CDA leases office space under a lease expiring June 30, 2034. 2020 lease expense for office space was \$159,802. Minimum annual lease payments for 2021 are approximately \$150,000 with two percent annual increases thereafter. In addition, the CDA leases office equipment under noncancelable leases with various expiration dates. 2020 lease expense for office equipment was \$5,130; future minimum annual lease payments are approximately \$5,500.

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, 2020 that are not recognized as liabilities in these financial statements was \$4,164,328 for the Lodging Tax Revenues program and \$3,330,010 of other King County and CDA grants.

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 Notes to Financial Statements
 December 31, 2020

NOTE 9 – INTERFUND TRANSFERS

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Cultural Special Account Fund	Lodging Tax Special Revenue Fund	\$ 8,669,065
Cultural Special Account Fund	General Fund	2,809,943
Lodging Tax Special Revenue Fund	General Fund	520,163
1% for Art Special Revenue Fund	General Fund	129,801
General Fund	Cultural Special Account Fund	<u>20,223</u>
Total Transfers		<u>\$12,149,195</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 – RESTRICTIONS AND COMPONENTS OF FUND BALANCE

Net Position

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

Components of Fund Balance

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

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

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

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

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

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

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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Notes to Financial Statements
December 31, 2020

NOTE 11 – 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 discontinued the use of lodging tax receipts for cultural purposes in King County after 2012 until 2021. The CDA had designated the Cultural Special Account Fund as the funding source for lodging tax program expenditures during this interim period.

Designation of Future Revenues

The CDA has designated annual lodging tax revenues to be the funding source for future debt service payments to King County. Reduction in future lodging tax revenues could negatively impact the CDA's ability to meet debt service requirements.

COVID-19 and 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 and ordered precautionary measures to slow the spread of the virus. These measures included closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they were leaving for an essential function. Many of these measures continued into 2021.

In response to the virus' impact on the cultural community, the CDA redirected certain 2020 budgeted expenditures towards immediate relief for the cultural community and made reductions in other 2020 budgeted program expenditures. In addition, the CDA recognized \$4,350,000 of revenues and expenditures in 2020 related to CARES Act pass-through grants to the arts and cultural community. There was no other financial impact in 2020 on the CDA from the events noted above.

Beginning in 2021, the CDA's operations are heavily dependent on lodging tax revenues which have been negatively impacted by the events noted above. There is uncertainty at this time on the timing and projected amount of 2021 lodging tax revenues. The CDA is evaluating potential program reductions and other financial strategies in the event that 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

	PERS 1					
	2020	2019	2018	2017	2016	2015
CDA's proportion of the net pension liability	0.017552%	0.016247%	0.016611%	0.016560%	0.016275%	0.015988%
CDA's proportionate share of the net pension liability	\$ 619,680	\$ 624,755	\$ 741,853	\$ 785,785	\$ 874,044	\$ 836,321
CDA's covered-employee payroll	\$1,044,781	\$ 976,640	\$ 936,184	\$ 925,530	\$ 885,598	\$ 842,840
CDA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	59.31%	63.97%	79.24%	84.90%	98.70%	99.23%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

Schedule of CDA Contributions Fiscal Year Ended December 31

	PERS 1					
	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 130,532	\$ 127,642	\$ 115,199	\$ 110,718	\$ 101,524	\$ 85,884
Contribution in relation to the contractually required contribution	\$ 130,532	\$ 127,642	\$ 115,199	\$ 110,718	\$ 101,524	\$ 85,884
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CDA's covered-employee payroll	\$1,026,478	\$ 993,751	\$ 904,354	\$ 931,591	\$ 908,084	\$ 848,220
Contributions as a percentage of covered-employee payroll	12.72%	12.84%	12.74%	11.88%	11.18%	10.13%

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

	PERS 2/3					
	2020	2019	2018	2017	2016	2015
CDA's proportion of the net pension liability	0.020072%	0.018404%	0.018700%	0.018918%	0.016891%	0.016221%
CDA's proportionate share of the net pension liability	\$ 256,710	\$ 178,765	\$ 319,286	\$ 657,310	\$ 850,449	\$ 579,586
CDA's covered-employee payroll	\$1,521,486	\$1,269,220	\$1,216,644	\$1,073,634	\$ 935,568	\$ 828,815
CDA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	16.87%	14.08%	26.24%	61.22%	90.90%	69.93%
Plan fiduciary net position as a percentage of the total pension liability	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

Schedule of CDA Contributions Fiscal Year Ended December 31

	PERS 2/3					
	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 190,090	\$ 165,881	\$ 149,710	\$ 128,435	\$ 107,252	\$ 84,454
Contribution in relation to the contractually required contribution	\$ 190,090	\$ 165,881	\$ 149,710	\$ 128,435	\$ 107,252	\$ 84,454
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CDA's covered-employee payroll	\$1,494,832	\$1,291,456	\$1,175,277	\$1,080,664	\$ 959,322	\$ 834,105
Contributions as a percentage of covered-employee payroll	12.72%	12.84%	12.74%	11.88%	11.18%	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,

	2020	2019	2018
Total OPEB liability - beginning	1,174,611	1,245,964	1,218,157
Service cost	63,297	59,851	65,283
Interest	43,097	50,140	45,773
Changes in benefit terms			
Differences between expected and actual experience			
Changes in experience data and assumptions	361,355	(160,746)	(73,417)
Benefit payments	(13,267)	(20,598)	(9,832)
Other changes			
Total OPEB liability - ending	1,629,093	1,174,611	1,245,964
Covered-employee payroll	2,566,267	2,245,860	2,152,828
Total OPEB liability as a % of covered payroll	63.5%	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.

**Cultural Development Authority of King County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Expenditures		Note
							Passed through to Subrecipients		
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via King County)	COVID 19 - Coronavirus Relief Fund	21.019	SLT0181	4,350,000	-	4,350,000			1,2
Total Federal Awards Expended:					-	4,350,000			

The accompanying notes are an integral part of this schedule.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY
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Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Note 1 - Basis of Accounting

This Schedule of Expenditure of Financial Awards is based on the accrual basis of accounting.

Note 2 - Federal De Minimis Indirect Cost Rate

The Cultural Development Authority of King County did not elect to charge a de minimis rate of 10% of modified total direct costs for indirect costs.



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**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER
UNIFORM GUIDANCE**

4Culture

January 1, 2020 through December 31, 2020

This schedule presents the corrective action planned by the Authority for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

Finding ref number: 2020-001	Finding caption: The Authority did not have effective internal controls in place for ensuring accurate and reliable financial reporting.
Name, address, and telephone of Authority contact person: Noy Kitnikone, Finance Director 101 Prefontaine Place S. Seattle, WA 98104 (206) 263-1601	
Corrective action the auditee plans to take in response to the finding: <i>The cause of the timing error has been identified and is being immediately corrected. Actions include improved documentation and communication of year-end cutoff procedures, expanded cutoff dates, additional reviews of contract payments after year-end, event date comparisons to other information systems and additional year-end review procedures.</i>	
Anticipated date to complete the corrective action: May 30, 2022 (2021 financial report filing date with the state)	

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We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

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