



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, 2022 through December 31, 2022**

*Published August 28, 2023*

Report No. 1033162



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

August 28, 2023

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

***Americans with Disabilities***

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## 4Culture

January 1, 2022 through December 31, 2022

### 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 basic 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 no 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>ALN</u>	<u>Program or Cluster Title</u>
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

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

None reported.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

## 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, 2022 through December 31, 2022**

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, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 23, 2023.

### REPORT ON 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described above 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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

## PURPOSE OF THIS REPORT

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

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

August 23, 2023

## 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, 2022 through December 31, 2022**

Board of Directors  
4Culture  
Seattle, Washington

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

### Opinion on Each Major Federal Program

We have audited the compliance of 4Culture, with the types of compliance requirements identified as subject to audit 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, 2022. The Authority's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2022.

### Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Authority's compliance with the compliance requirements referred to above.



## **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Authority's federal programs.

## **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Authority's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## REPORT ON 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### 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.



Pat McCarthy, State Auditor

Olympia, WA

August 23, 2023

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### 4Culture

**January 1, 2022 through December 31, 2022**

Board of Directors  
4Culture  
Seattle, Washington

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Lodging Tax Special Revenue, One 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.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Matters of Emphasis**

As discussed in Note 8 to the financial statements, in 2022, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. 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 supplementary information 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 as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

August 23, 2023

## **FINANCIAL SECTION**

### **4Culture**

**January 1, 2022 through December 31, 2022**

## **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2022

## **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2022

Statement of Activities – 2022

Balance Sheet - Governmental Funds – 2022

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2022

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual  
Comparison – General Fund, Lodging Tax Special Revenue Fund, One Percent for Art  
Special Revenue Fund, Cultural Account Fund – 2022

Notes to Financial Statements – 2022

## **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of CDA's Proportionate Share of Net Pension Liability (Asset) – PERS 1,  
PERS 2/3 – 2022

Schedule of CDA Contributions – PERS 1, PERS 2/3 – 2022

Schedule of Changes in Total OPEB Liability and Related Ratios – 2022

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2022

Notes to the Schedule of Expenditures of Federal Awards – 2022

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE  
Management's Discussion and Analysis  
For the Year Ended December 31, 2022

## 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, 2022. This information should be considered in conjunction with the CDA's financial statements and notes to the financial statements, which follow.

### FINANCIAL HIGHLIGHTS – 2022

As of December 31, 2022, the CDA's total net position was \$8.7 million, all of which was restricted and expendable for cultural programs. Total net position of the CDA increased by \$4.1 million, or 88.4%, for the year ended December 31, 2022. This increase was composed of \$20.8 million of total revenues and \$16.7 million of total expenses.

As of December 31, 2022, the CDA's total fund balances were \$36.7 million, substantially all of which was restricted for specific purposes. Total fund balances of the CDA increased by \$2.2 million, or 6.3%, for the year ended December 31, 2022. This increase was composed of \$21.4 million of total fund revenues, \$19.6 million of total fund expenditures and \$0.4 million of net 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 2022 are all classified as governmental activities, which are principally supported by intergovernmental revenues. The CDA reported no business-type activities in 2022, 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 2022 are categorized as major governmental funds. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The statements focus on how cash and other financial assets can be readily converted to financial resources and the balances left at year-end that are available for use. Such information can be useful in determining whether there will be adequate financial resources to meet the current needs of the CDA. The CDA presents a balance sheet and statement of revenues, expenditures, and changes in fund



CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE  
Management's Discussion and Analysis  
For the Year Ended December 31, 2022

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, 2022, the total net position of the CDA was \$8,738,633, an increase of 88.4% from the net position of the previous year. The entire net position was restricted and expendable for arts and culture programs.

	Net Position as of December 31,	
	<u>2022</u>	<u>2021</u>
Assets:		
Cash and cash equivalents	\$35,169,717	\$31,248,349
Other assets	<u>5,853,405</u>	<u>6,332,160</u>
Total assets	<u>41,023,122</u>	<u>37,580,509</u>
Deferred Outflows	766,015	333,492
Liabilities:		
Current liabilities	18,321,292	17,225,549
Noncurrent liabilities	<u>14,014,707</u>	<u>13,984,068</u>
Total liabilities	<u>32,335,999</u>	<u>31,209,617</u>
Deferred Inflows	714,505	2,064,912
Net Position:		
Net investment in capital assets	-	-
Restricted for arts and cultural purposes	8,738,633	4,639,472
Unrestricted	<u>-</u>	<u>-</u>
Total net position	<u>\$ 8,738,633</u>	<u>\$ 4,639,472</u>

Other assets include a \$2.7 million receivable from King County for lodging tax revenues and a \$2.1 million leased asset. Current liabilities include \$17.1 million of unearned revenues related to the One Percent (1%) for Art program. Noncurrent liabilities include \$7.9 million in net advances from King County for the Building for Equity capital investment program, \$2.0 million for the total of future required payments to King County for the principal portion of debt service requirements on County bonds issued for the Building for Culture capital investment program in 2016, \$2.1 million of lease liability for office space and \$1.2 million of total OPEB 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.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
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Management's Discussion and Analysis  
For the Year Ended December 31, 2022

Analysis of Changes in Net Position

The CDA's total net position increased \$4,099,161, or 88.4%, during 2022. The following information reflects how the CDA's net position changed during the fiscal year.

	<u>2022</u>	<u>2021</u>
Revenues:		
Lodging tax revenues	\$ 12,396,621	\$ 7,098,137
Program support from King County	7,818,407	1,461,639
Other program revenues	6,900	98,949
Investment earnings, net	<u>537,268</u>	<u>31,110</u>
Total revenues	<u>20,759,196</u>	<u>8,689,835</u>
Expenses:		
Culture and recreation program activities	<u>16,660,035</u>	<u>9,590,113</u>
Total expenses	<u>16,660,035</u>	<u>9,590,113</u>
Total increase (decrease) in net position	<u>\$ 4,099,161</u>	<u>\$ (900,278)</u>

Program support from King County includes revenues for the American Rescue Plan Act, the One Percent (1%) for Art program, revenues for other grants to be managed by the CDA and awarded by King County to other organizations, and special appropriations for arts and cultural programs managed by the CDA.

Cultural and recreation program expense amounts and allocations are incurred in accordance with requirements specified in the King County Code and approved budgets. Certain public art project expenses are partially dependent on the timing of King County construction projects. Expenses increased in 2022 primarily due to American Rescue Plan Act expenditures.

**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, 2022 were \$36.7 million, an increase of \$2.2 million (6.3%) over the fund balances of the previous year. Total fund balances included (1) \$6.8 million in the General Fund; (2) \$4.1 million in the Lodging Tax Special Revenue Fund; (3) \$17.0 million in the One Percent (1%) for Art Special Revenue Fund; and (4) \$8.8 million in the Cultural Special Account Fund. Substantially all (99.7%) of the total fund balance is restricted due to certain legal restrictions on its specific use.

Total fund balances of the CDA increased by \$2.2 million for the year ended December 31, 2022. This decrease was composed of (1) \$21.4 million of total fund revenues, (2) \$19.6 million of total fund expenditures and (3) \$0.4 million of net other financing sources. The net increase in total fund balances was primarily due to the result of timing differences between the recognition of individual programs' revenues and their related expenditures.

Total fund revenues of \$21.4 million in 2022 included \$12.4 million of lodging tax revenues, \$6.2 million of American Rescue Plan Act revenues and \$1.9 million of program support for the 1% for Art program. Other revenues included investment earnings, miscellaneous King County program support, fees from consulting services and grants and contributions from other sources.

Total expenditures of \$19.6 million in 2022 included \$6.3 million of expenditures for the lodging tax awards program, \$6.2 million of American Rescue Plan Act expenditures, \$2.3 million acquisition of

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE  
Management's Discussion and Analysis  
For the Year Ended December 31, 2022

leased asset, \$1.4 million of expenditures for the 1% for Art program and \$1.3 million of expenditures related to the Building for Equity program. Other expenditures were for other arts and cultural support, public art projects, and management and general supporting activities.

Total net other financing sources of \$0.4 million included a \$1.9 million of repayment of advances from King County for the Building for Equity program and \$2.3 million proceeds from the acquisition of a lease.

Significant interfund transfers included a \$6.0 million net transfer from the Cultural Special Account Fund to the Lodging Tax Special Revenue Fund for use for current year programs and a \$1.8 million net transfer from the Cultural Special Account Fund to the General Fund for use for repayment of Building for Equity advances to King County.

There were no significant variances of actual results from the final budget except for (1) \$2.0 million of revenues in excess of budget and a \$3.5 million under-expenditure for projects in the 1% for Art Special Revenue Fund due to the timing of County construction projects; (2) a \$2.8 million under-expenditure and corresponding revenue shortfall in the General Fund due to the timing of American Rescue Plan Act program expenditures, (3) another \$2.7 million net under-expenditure for cultural programs in the General Fund primarily due to the timing of commitments for the Preservation Action program; (4) a \$1.4 million shortfall in advances from King County for the Building for Equity program due to the timing of program expenditures, and (5) a \$3.6 million reduction of transfers from the Cultural Special Account to the Lodging Tax Special Revenue Fund and General Fund due to the timing of program expenditures and the existence of sufficient reserves.

#### **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. In addition, 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 2023 lodging tax revenues. The CDA continues its evaluation of 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 2023 government-wide statement of activities are expected to remain at 2022 levels in all categories except for (1) projected decrease of \$3.8 million in revenues and expenditures related to the pass-through of American Rescue Plan Act funds from King County, (2) projected increase of \$1.1 million in lodging tax revenues, subject to the uncertainty described above; (3) projected increase of \$3.2 million in program support from King County; and (4) projected net increase of \$11.6 million in expenses for other cultural program activities.

Revenues and expenses to be recognized in the 2023 fund financial statements are expected to remain at 2022 levels in all categories except for (1) projected decrease of \$3.8 million in General Fund revenues and expenditures related to the pass-through of American Rescue Plan Act funds from King County, (2) projected increase of \$1.1 million in Cultural Special Account lodging tax revenues, subject to the uncertainties described above; (3) projected increase of \$2.4 million in One Percent for Art Special Revenue Fund revenues from program support from King County; (4) projected decrease of \$2.3 million in General Fund lease expenditures; (5) projected increase of \$5.5 million of General Fund expenditures for other culture program expenditures; (6) projected increase of \$2.9 million in Lodging Tax Special Revenue Fund expenditures for culture program activities, and (7) projected increase of \$2.6 million in One Percent for Art Special Revenue Fund expenditures for culture program activities.

#### **REQUESTS FOR INFORMATION**

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE  
Management's Discussion and Analysis  
For the Year Ended December 31, 2022

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, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	35,169,717	-	35,169,717
Investments	-	-	-
Due from King County	2,736,321	-	2,736,321
Other current assets	100,981	-	100,981
Prepaid rent, noncurrent	212,337	-	212,337
Net pension asset	691,947	-	691,947
Leased asset	2,111,819	-	2,111,819
Total assets	<u>41,023,122</u>	<u>-</u>	<u>41,023,122</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows on pensions	755,258		755,258
Deferred outflows on other post retirement bene	10,757		10,757
Total deferred outflows	<u>766,015</u>	<u>-</u>	<u>766,015</u>
LIABILITIES			
Accounts payable and other accrued liabilities	1,261,498	-	1,261,498
Unearned revenues	17,059,794	-	17,059,794
Noncurrent liabilities			
Due within one year	2,408,312	-	2,408,312
Due in more than one year	11,606,395	-	11,606,395
Total liabilities	<u>32,335,999</u>	<u>-</u>	<u>32,335,999</u>
DEFERRED INFLOWS OF RESOURCES	714,505		714,505
NET POSITION			
Net investment in capital assets	-	-	-
Restricted for culture and recreation purposes	8,738,633	-	8,738,633
Unrestricted	-	-	-
Total net position	<u>8,738,633</u>	<u>-</u>	<u>8,738,633</u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2022

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	16,660,035	-	20,221,928	-	<u>3,561,893</u>
General revenues and transfers:					
Investment earnings					<u>537,268</u>
Total general revenues and transfers					<u>537,268</u>
Change in net position					4,099,161
Net Position - January 1, 2022					4,639,472
Net Position - December 31, 2022					<u><u>8,738,633</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, 2022

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Special Account	Total Governmental Funds
ASSETS					
Cash and cash equivalents	6,877,867	4,728,497	17,188,816	6,374,537	35,169,717
Investments	-	-	-	-	-
Due from a primary government	276,063	-	-	2,460,258	2,736,321
Other current assets	39,391	52,324	9,266	-	100,981
TOTAL ASSETS	<u>7,193,321</u>	<u>4,780,821</u>	<u>17,198,082</u>	<u>8,834,795</u>	<u>38,007,019</u>
LIABILITIES					
Accounts payable	325,442	608,874	9,791	-	944,107
Payroll and other accrued liabilities	53,054	111,577	152,760	-	317,391
Unearned Revenues	24,263	-	-	-	24,263
Due to a primary government	-	-	-	-	-
Total Liabilities	<u>402,759</u>	<u>720,451</u>	<u>162,551</u>	<u>-</u>	<u>1,285,761</u>
FUND BALANCES					
Nonspendable	39,390	52,324	9,266	-	100,980
Restricted	6,751,172	4,008,046	17,026,265	8,834,795	36,620,278
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>6,790,562</u>	<u>4,060,370</u>	<u>17,035,531</u>	<u>8,834,795</u>	<u>36,721,258</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>7,193,321</u>	<u>4,780,821</u>	<u>17,198,082</u>	<u>8,834,795</u>	<u>38,007,019</u>
	0	-	-	-	0

Reconciliation of total governmental fund balances to net position:

Total fund balances	36,721,258
Certain public art unearned revenues are not due and payable in the current period and are not reported on the fund balance sheet	(17,035,531)
Long-term liabilities, including bonds payable and net pension, OPEB and lease liabilities, are not due and payable in the current period and are not reported on the fund balance sheet	(14,014,707)
Net pension asset is not a current financial resource and is not reported on the fund balance sheet	691,947
Deferred outflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	766,015
Deferred inflows of resources related to pensions are applicable to future periods and are not reported on the fund balance sheet	(714,505)
Noncurrent prepaid rent is not a current financial resource and is not reported on the fund balance sheet	212,337
Leased asset is not a current financial resource and is not reported on the fund balance sheet	2,111,819
Total net position of governmental activities	<u>8,738,633</u>

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

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2022

	General Fund	Lodging Tax Special Revenue Fund	1% for Art Special Revenue Fund	Cultural Special Account	Total Governmental Funds
<b>REVENUES</b>					
Program Support from King County	6,494,899	-	1,962,757	-	8,457,656
Lodging Tax Gross Receipts	-	-	-	12,396,621	12,396,621
Investment Earnings	109,689	20,588	288,949	118,042	537,268
Miscellaneous	6,900	-	-	-	6,900
Total Revenues	<u>6,611,488</u>	<u>20,588</u>	<u>2,251,706</u>	<u>12,514,663</u>	<u>21,398,445</u>
<b>EXPENDITURES</b>					
Culture and recreation program activities	9,322,286	6,305,782	1,444,316	-	17,072,384
Payments to King County for debt	300,000	-	-	-	300,000
Acquisition of leased asset	2,295,455	-	-	-	2,295,455
Total Expenditures	<u>11,917,741</u>	<u>6,305,782</u>	<u>1,444,316</u>	<u>-</u>	<u>19,667,839</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,306,253)</u>	<u>(6,285,194)</u>	<u>807,390</u>	<u>12,514,663</u>	<u>1,730,606</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Advances from King County	-	-	-	-	-
Repayment of advances from King	(1,859,493)	-	-	-	(1,859,493)
Proceeds from acquisition of lease	2,295,455	-	-	-	2,295,455
Transfers in	2,699,521	6,000,000	-	20,223	8,719,744
Transfers out	(20,223)	(671,887)	(168,141)	(7,859,493)	(8,719,744)
Total Other Financing Sources (uses)	<u>3,115,260</u>	<u>5,328,113</u>	<u>(168,141)</u>	<u>(7,839,270)</u>	<u>435,962</u>
Net changes in fund balances	(2,190,993)	(957,081)	639,249	4,675,393	2,166,568
Fund Balances - January 1, 2022	8,981,555	5,017,451	16,396,282	4,159,402	34,554,690
Fund Balances - December 31, 2022	<u>6,790,562</u>	<u>4,060,370</u>	<u>17,035,531</u>	<u>8,834,795</u>	<u>36,721,258</u>
	-	-	-	-	-

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

Net change in fund balances - total governmental funds	2,166,568
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	(639,249)
Certain net pension and OPEB liability changes increase net position but do not increase current financial resources of funds	519,562
Payments to King County for principal debt service consume current financial resources of funds but do not affect net position	202,823
Payments towards lease liability consume current financial resources of funds but do not affect net position	157,114
Repayments of advances from King County reduce current financial resources but do not affect net position	1,859,493
Certain compensated absences liability changes increase net position but do not increase current financial resources of funds	36,709
Amortization of leased asset and noncurrent prepaid rent reduces net position but does not decrease current financial resources of funds	(203,859)
Change in net position of governmental activities	<u>4,099,161</u>



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, 2022

	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	9,276,120	6,494,899	(2,781,221)	-	-	-	-	-	-	-	-	-
Lodging Tax Gross Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment Earnings	17,160	17,160	109,689	92,529	18,461	20,588	2,127	29,381	288,949	259,568	11,771,813	12,396,621	624,808
Miscellaneous	150,000	150,000	6,900	(143,100)	-	-	-	-	-	-	13,520	118,042	104,522
Total Revenues	443,280	9,443,280	6,611,488	(2,831,792)	18,461	20,588	2,127	29,381	2,251,706	2,222,325	11,785,333	12,514,663	729,330
EXPENDITURES													
Culture and recreation program activities	5,850,808	14,850,808	9,322,286	5,528,522	7,141,960	6,305,782	836,178	4,964,231	1,444,316	3,519,915	-	-	-
Payments to King County for debt service	300,000	300,000	300,000	-	-	-	-	-	-	-	-	-	-
Acquisition of leased asset	-	2,295,455	2,295,455	-	-	-	-	-	-	-	-	-	-
Total Expenditures	6,150,808	17,446,263	11,917,741	5,528,522	7,141,960	6,305,782	836,178	4,964,231	1,444,316	3,519,915	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(5,707,528)	(8,002,983)	(5,306,253)	2,696,730	(7,123,499)	(6,285,194)	838,305	(4,934,850)	807,390	5,742,240	11,785,333	12,514,663	729,330
OTHER FINANCING SOURCES (USES)													
Advances from King County	1,415,935	1,415,935	-	(1,415,935)	-	-	-	-	-	-	-	-	-
Repayment of advances from King County	(1,500,000)	(1,500,000)	(1,859,493)	(359,493)	-	-	-	-	-	-	-	-	-
Proceeds from acquisition of lease	-	2,295,455	2,295,455	-	-	-	-	-	-	-	-	-	-
Transfers in	3,601,633	3,601,633	2,699,521	(902,112)	8,755,769	6,000,000	(2,755,769)	-	-	-	20,223	20,223	-
Transfers out	(20,223)	(20,223)	(20,223)	-	(684,698)	(671,887)	12,811	(170,935)	(168,141)	2,794	(11,501,769)	(7,859,493)	3,642,276
Total Other Financing Sources (uses)	3,497,345	5,792,800	3,115,260	(2,677,540)	8,071,071	5,328,113	(2,742,958)	(170,935)	(168,141)	2,794	(11,481,546)	(7,839,270)	3,642,276
Net changes in fund balances	(2,210,183)	(2,210,183)	(2,190,993)	19,190	947,573	(957,081)	(1,904,654)	(5,105,785)	639,249	5,745,034	303,787	4,675,393	4,371,606

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, 2022

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

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

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

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

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the CDA. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The CDA reported no business-type activities in 2022.

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, 2022

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 2022 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. Due to changes in the law this fund is no longer technically required; however, it continues to be used by the CDA for historical expenditure comparison purposes.

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

The Cultural Special Account Special Revenue Fund was used to receive and manage 40% of the CDA's annual lodging tax revenues through 2012 and since 2021 is used to receive and manage 100% of the CDA's annual lodging tax revenues in accordance with the State of Washington RCW 67.28.180, KCC chapters 4.08.195 and 4.42.025, and CDA policy. The account may only be used for art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts.

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE  
Notes to Financial Statements  
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information

Annual budgets are adopted based on the accrual basis of accounting for the government-wide financial statements and converted to the modified accrual basis of accounting for the fund financial statements. Budget legal authority is at the fund level. The original adopted budget was modified to include estimated expenditures for American Rescue Plan Act pass-throughs.

Assets, Liabilities, Fund Balances, Net Position

Cash and Cash Equivalents - In addition to deposits with a qualified public depository as described in Note 2, cash and cash equivalents include funds held in the Washington State Local Government Investment Pool since these funds can be liquidated on demand.

Investments – Investments are reported at fair market value as described in Note 2.

Noncurrent Assets - The CDA implemented GASB 87 re: leases in 2022 and recognized a leased asset for its office space at the amount of the initial measurement of the corresponding lease liability. The leased asset is being amortized on a straight-line basis over the remaining 12.5-year life of the lease. 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 original 29-year life of the lease.

Unearned Revenues – Unearned revenues primarily represent the total amounts collected from King County for the One Percent (1%) for Art program for which the revenue recognition criteria have not been met. The CDA recognizes revenue as earned for 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, 2022

**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, 2022, the CDA's total deposits, excluding investments in the WA State LGIP, were \$1.37 million in carrying amount and \$1.72 million of bank balance, of which \$0.56 million and \$0.73 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  
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**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

The following schedule shows the types of investments, the average interest rate, the effective duration limits and the concentration of all CDA investments as of December 31, 2022 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Average Interest Rate</u>	<u>Effective Duration(Yrs)</u>	<u>Concentration</u>
State Treasurer's Investment Pool (LGIP)	\$ 33,798	\$ 30,053	4.12%	0.003	100.0%
Less WA State LGIP (cash equivalent)	<u>(33,798)</u>				
Total investments per Stmt of Net Position	<u>\$ 0</u>				

The LGIP investments are recorded at amortized cost.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2022, the combined weighted average effective duration of the CDA's portfolio was 0.003 years.

Credit risk - Credit risk is the risk that an issuer will not fulfill its obligations. 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, 2022, the CDA's investments were fully concentrated in the WA State Local Government Investment Pool.

**NOTE 3 – NONCURRENT ASSETS**

Leased Asset

The CDA implemented GASB 87 re: leases in 2022 and recognized a leased asset for its office space at the amount of the initial measurement of the corresponding lease liability. The leased asset is being amortized on a straight-line basis over the remaining 12.5-year life of the lease; annual amortization amounts are \$183,636. Leased asset consisted of the following at December 31, 2022:

Leased Asset, original valuation	\$ 2,295,455
Accumulated amortization	<u>(183,636)</u>
Net book value	<u>\$ 2,111,819</u>

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, 2022:

Prepaid rent, original cost	\$ 583,089
Accumulated amortization	<u>(350,532)</u>
Net book value	<u>\$ 232,557</u>
Current portion	<u>(20,220)</u>
Prepaid rent, noncurrent	<u>\$ 212,337</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.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for each plan. The DRS comprehensive annual financial report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98504-8380

Or the DRS comprehensive annual financial report may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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 10.39% as of December 31, 2022 for all plans. The required employee contribution rate as of December 31, 2022 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 \$109,181 and \$157,439 to the PERS 1 and PERS 2/3 plans, respectively, for the year ended December 31, 2022.

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NOTE 4 – PENSION PLANS (Continued)

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, 2022. The CDA recorded a total net pension liability of \$457,583 as of June 30, 2022 for PERS 1, representing its proportionate share of 0.016% of the collective net pension liability for PERS 1, and recorded a total net pension asset of \$691,947 as of June 30, 2022 for PERS 2/3, representing its proportionate share of 0.019% of the collective net pension asset for PERS 2/3. The CDA recognized pension (negative) expense totaling \$10,578 for the year ending December 31, 2022, composed of \$202,746 and (\$192,168) for PERS 1 and PERS 2/3, respectively.

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2021, with the results rolled forward to June 30, 2022. The following actuarial assumptions were used:

Inflation: 2.75% total economic inflation, 3.25% salary inflation

Salary Increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity

Investment Rate of Return: 7.0%

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, 2021, valuation were based on the results of the 2013-2018 Experience Study Report and the 2021 Economic Experience Study.

Discount Rate: The discount rate used to measure the total pension liability was 7.0%. 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 7.0% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long term expected rate of return, a 7.0% 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 7.0% 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, 2021, 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%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	



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**NOTE 4 – PENSION PLANS (Continued)**

The table below presents the CDA's proportionate share of the net pension liability(asset) calculated using the discount rate of 7.0%, as well as what the CDA's proportionate share of the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate.

	1% Decrease (6.0%)	Current Rate (7.0%)	1% Increase (8.0%)
PERS 1	\$ 611,324	\$ 457,583	\$ 323,403
PERS 2/3	814,858	(691,947)	(1,929,883)
Total	<u>\$ 1,426,182</u>	<u>\$ (234,364)</u>	<u>\$(1,606,480)</u>

At December 31, 2022, the CDA reported total deferred outflows of resources related to pensions of \$755,258 and total deferred inflows of resources related to pensions of \$714,505 from the following sources:

	<u>PERS 1</u>	<u>PERS 2/3</u>
<u>Deferred Outflows:</u>		
Differences between expected and actual experience	\$ -	\$ 171,448
Changes of assumptions	-	385,666
Changes in proportionate share	-	54,613
Contributions subsequent to measurement date	<u>59,422</u>	<u>84,109</u>
Total deferred outflows	\$ 59,422	\$ 695,836
<u>Deferred Inflows:</u>		
Differences between expected and actual experience	\$ -	\$ 15,664
Net difference between projected and actual investment earnings	75,835	511,561
Changes of assumptions	-	100,981
Changes in proportionate share	<u>-</u>	<u>10,464</u>
Total deferred inflows	\$ 75,835	\$ 638,670

Deferred outflows of resources of \$143,531 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, 2022. Other net amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows: 2023 – (\$172,808), 2024 – (\$160,932), 2025 – (\$201,003), 2026 – \$263,815, 2027 – \$85,006, thereafter – \$83,144.

**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, 2022:

OPEB liabilities	\$ 1,225,737
OPEB assets	-
Deferred outflows of resources	10,757
Deferred inflows of resources	-
OPEB expense	(\$244,196)

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NOTE 5 - DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (Continued)

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, 2022, there were 37 total employees in the plan, including 7 inactive employees or beneficiaries currently receiving benefits, no inactive employees entitled to but not yet receiving benefits, and 30 active employees.

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

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 6/30/22, using the entry age actuarial cost method. The actuarial assumptions included a discount rate of 2.16% and 3.54%, 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 2-11%, trending to about 4.3% in 2075. Mortality rates used base mortality table PubG.H-2010 (General).

The following presents the total OPEB liability calculated using the current healthcare cost trend rate average of 7.0%, 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%) or 1-percentage point higher (8.0%) 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	\$ 1,014,408	\$ 1,225,737	\$ 1,502,189

The following represents the total OPEB liability calculated using a discount rate of 3.54%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.54%) or 1-percentage point higher (4.54%) than the current rate.

	1% Decrease <u>(2.54%)</u>	Current Rate <u>(3.54%)</u>	1% Increase <u>(4.54%)</u>
Total OPEB liability	\$ 1,461,535	\$ 1,225,737	\$ 1,038,691

Changes in the Total OPEB Liability

Total OPEB liability at January 1, 2022	\$ 1,488,489
Changes for the Year:	
Service Cost	78,775
Interest	33,654
Changes in experience data and assumptions	(356,625)
Benefit payments	<u>(18,556)</u>
Net Changes	<u>(262,752)</u>
Total OPEB liability at December 31, 2022	<u>\$ 1,225,737</u>

Deferred outflows of resources of \$10,757 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, 2022.

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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 for each wrongful act and an aggregate limit of \$20 million per member, 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 2022, the CDA transferred \$300,000 to King County as payments for County debt service requirements, including \$202,823 for County bond principal and \$97,177 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>
2023	\$ 212,947	\$ 87,053	\$ 300,000
2024	223,602	76,398	300,000
2025	234,801	65,199	300,000
2026	246,562	53,438	300,000
2027	256,456	43,544	300,000
2028-2030	<u>832,515</u>	<u>67,485</u>	<u>900,000</u>
Totals	<u>\$ 2,006,883</u>	<u>\$ 393,117</u>	<u>\$ 2,400,000</u>
Due within one year	<u>212,947</u>		
Due in more than one year	<u>\$ 1,793,936</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 for Equity 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. Annual repayments to King County were required beginning in 2021 in the amount of the lesser of \$2 million or 15% of the CDA's annual lodging tax revenue with a minimum \$1.5 million annual repayment due. The CDA has made all required annual repayments to date. Interest expense on the advances may be required to be accrued monthly based on the King County Investment Pool Monthly Gross Earnings Rate. In 2022, there were no new advances from King County to the CDA for the program, repayments of \$1,859,493 were made, and no interest expense was required to be accrued.

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NOTE 7 – LONG-TERM DEBT AND CHANGES IN NONCURRENT LIABILITIES (Continued)

The CDA implemented GASB 87 re: leases in 2022 and recognized a lease liability for its office space measured at the present value of payments expected to be made during the lease term, including fixed payments and variable payments that are fixed in substance. Future scheduled lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 162,106	\$ 10,126	\$ 172,232
2024	166,355	9,321	175,676
2025	170,695	8,495	179,190
2026	175,125	7,648	182,773
2027	179,650	6,779	186,429
2028-2032	969,529	20,060	989,589
2033-2034	314,881	1,230	316,111
Totals	<u>\$ 2,138,341</u>	<u>\$ 63,659</u>	<u>\$ 2,202,000</u>
Due within one year	<u>162,106</u>		
Due in more than one year	<u>\$ 1,976,235</u>		

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

The following table summarizes the changes in noncurrent liabilities for the year ended December 31, 2022:

	<u>Balance</u> <u>01/01/22</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/22</u>	<u>Due Within</u> <u>One Year</u>
Debt service to King County	\$ 2,209,706	\$ -	\$ (202,823)	\$ 2,006,883	\$ 212,947
Advances from King County	9,784,657	-	(1,859,493)	7,925,164	2,000,000
Net pension liability	213,508	1,563,267	(1,319,192)	457,583	-
Total OPEB liability	1,488,489	112,429	(375,181)	1,225,737	21,514
Lease Payable	-	2,295,455	(157,114)	2,138,341	162,106
Compensated absences liability	297,708	163,226	(199,935)	260,999	11,745
Total noncurrent liabilities	<u>\$13,994,068</u>	<u>\$ 4,134,377</u>	<u>\$(4,113,738)</u>	<u>\$14,014,707</u>	<u>\$2,408,312</u>

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**NOTE 8 – LEASES AND OTHER COMMITMENTS**

Leases

The CDA implemented GASB 87 re: leases in 2022 and recorded a leased asset and payable related to a lease for its office space as noted earlier. In addition, the CDA leases office equipment under noncancelable leases with various expiration dates. These leases are immaterial and, accordingly, the CDA elected to not record a leased asset and lease payable for these minor leases. 2022 rent expense for these office equipment leases was \$4,075; future minimum annual rent payments are approximately \$4,000.

Contracts and Awards

Each year, the CDA awards numerous grants to local arts and heritage organizations through the Lodging Tax Revenues program. In addition, the CDA administers various other grants awarded by King County. The majority of these grants are reimbursement grants to the recipient for specific expenditures identified in the grant contract. Under generally accepted accounting principles, the CDA does not recognize a liability for these grants until the recipient organization has incurred the specified expenditures and invoiced the CDA. It is anticipated that all current outstanding awards will eventually be paid by the CDA. The total amount of outstanding awards and contracts at December 31, 2022 that are not recognized as liabilities in these financial statements was \$3,422,826 for the Lodging Tax Revenues program and \$4,536,564 of other King County and CDA grants.

**NOTE 9 – INTERFUND TRANSFERS**

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Cultural Special Account Fund	Lodging Tax Special Revenue Fund	\$ 6,000,000
Cultural Special Account Fund	General Fund	1,859,493
Lodging Tax Special Revenue Fund	General Fund	671,887
1% for Art Special Revenue Fund	General Fund	168,141
General Fund	Cultural Special Account Fund	20,223
Total Transfers		<u>\$ 8,719,744</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.

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**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.

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**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.

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

The CDA's operations are heavily dependent on lodging tax revenues which have been negatively impacted by the impact of the COVID-19 virus. In response to reduced lodging tax revenues, the CDA made various reductions in 2022 budgeted program expenditures. There was no other financial impact in 2022 on the CDA from the events noted above.

There is uncertainty at this time on the timing and projected amount of 2023 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.

## REQUIRED SUPPLEMENTARY INFORMATION

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

	PERS 1							
	2022	2021	2020	2019	2018	2017	2016	2015
CDA's proportion of the net pension liability	0.016434%	0.017483%	0.017552%	0.016247%	0.016611%	0.016560%	0.016275%	0.015988%
CDA's proportionate share of the net pension liability	\$ 457,583	\$ 213,508	\$ 619,680	\$ 624,755	\$ 741,853	\$ 785,785	\$ 874,044	\$ 836,321
CDA's covered-employee payroll	\$ 1,062,836	\$ 1,058,928	\$ 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	43.05%	20.16%	59.31%	63.97%	79.24%	84.90%	98.70%	99.23%
Plan fiduciary net position as a percentage of the total pension liability	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

### Schedule of CDA Contributions Fiscal Year Ended December 31

	PERS 1							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 109,181	\$ 116,361	\$ 130,532	\$ 127,642	\$ 115,199	\$ 110,718	\$ 101,524	\$ 85,884
Contribution in relation to the contractually required contribution	\$ 109,181	\$ 116,361	\$ 130,532	\$ 127,642	\$ 115,199	\$ 110,718	\$ 101,524	\$ 85,884
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CDA's covered-employee payroll	\$ 1,080,114	\$ 997,368	\$ 1,026,478	\$ 993,751	\$ 904,354	\$ 931,591	\$ 908,084	\$ 848,220
Contributions as a percentage of covered-employee payroll	10.11%	11.67%	12.72%	12.84%	12.74%	11.88%	11.18%	10.13%

### Schedule of CDA's Proportionate Share of Net Pension Liability (Asset) Measurement Date of June 30

	PERS 2/3							
	2022	2021	2020	2019	2018	2017	2016	2015
CDA's proportion of the net pension liability	0.018657%	0.019816%	0.020072%	0.018404%	0.018700%	0.018918%	0.016891%	0.016221%
CDA's proportionate share of the net pension liability (asset)	\$ (691,947)	\$ (1,973,992)	\$ 256,710	\$ 178,765	\$ 319,286	\$ 657,310	\$ 850,449	\$ 579,586
CDA's covered-employee payroll	\$ 1,532,611	\$ 1,541,606	\$ 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	-45.15%	-128.05%	16.87%	14.08%	26.24%	61.22%	90.90%	69.93%
Plan fiduciary net position as a percentage of the total pension liability	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

### Schedule of CDA Contributions Fiscal Year Ended December 31

	PERS 2/3							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 157,439	\$ 169,401	\$ 190,090	\$ 165,881	\$ 149,710	\$ 128,435	\$ 107,252	\$ 84,454
Contribution in relation to the contractually required contribution	\$ 157,439	\$ 169,401	\$ 190,090	\$ 165,881	\$ 149,710	\$ 128,435	\$ 107,252	\$ 84,454
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CDA's covered-employee payroll	\$ 1,557,525	\$ 1,451,985	\$ 1,494,832	\$ 1,291,456	\$ 1,175,277	\$ 1,080,664	\$ 959,322	\$ 834,105
Contributions as a percentage of covered-employee payroll	10.11%	11.67%	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,

	2022	2021	2020	2019	2018
Total OPEB liability - beginning	1,488,489	1,629,093	1,174,611	1,245,964	1,218,157
Service cost	78,775	84,000	63,297	59,851	65,283
Interest	33,654	37,640	43,097	50,140	45,773
Changes in benefit terms					
Differences between expected and actual experience					
Changes in experience data and assumptions	(356,625)	(242,307)	361,355	(160,746)	(73,417)
Benefit payments	(18,556)	(19,937)	(13,267)	(20,598)	(9,832)
Other changes					
Total OPEB liability - ending	1,225,737	1,488,489	1,629,093	1,174,611	1,245,964
Covered-employee payroll	2,770,582	2,507,184	2,566,267	2,245,860	2,152,828
Total OPEB liability as a % of covered payroll	44.2%	59.4%	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, 2022**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via King County)	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	SLFRP012	6,205,799	-	6,205,799	-	
<b>Total Federal Awards Expended:</b>				<b>6,205,799</b>	<b>-</b>	<b>6,205,799</b>	<b>-</b>	

*The accompanying notes are an integral part of this schedule.*

CULTURAL DEVELOPMENT AUTHORITY OF KING COUNTY  
dba 4CULTURE

Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2022

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.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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.

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

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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