



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Town of Steilacoom

For the period January 1, 2022 through December 31, 2022

Published July 29, 2024

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

July 29, 2024

Mayor and Town Council
Town of Steilacoom
Steilacoom, Washington

Report on Financial Statements

Please find attached our report on the Town of Steilacoom's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Town of Steilacoom January 1, 2022 through December 31, 2022

2022-001 The Town did not have adequate internal controls ensuring accurate reporting of its financial statements.

Background

State and federal agencies, the Town Council, and the public rely on the information included in financial statements and reports to make decisions. Town management is responsible for designing, implementing and maintaining internal controls that provide assurance its financial reporting is accurate and reliable. The Town prepares its financial statements in accordance with generally accepted accounting principles and statements from the Governmental Accounting Standards Board (GASB).

Our audit found a significant deficiency in internal controls over accounting and financial reporting that affected the Town's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate significant deficiencies as a finding.

Description of Condition

Our audit identified internal control deficiencies that, when taken together, represent a significant deficiency. Specifically, the Town did not have a process in place to adequately research and implement new accounting standards.

Cause of Condition

Town management did not dedicate the necessary resources to research new GASB standards. As a result, Town personnel did not implement the new lease reporting requirements in GASB Statement No. 87, *Leases*, when completing the financial statements. Town personnel were aware of the requirement but used incorrect guidance to implement the standard, which caused them to understate leases on the financial statements.

Effect of Condition

The Town's financial information contained errors that management did not detect. We determined the Town did not implement GASB Statement No. 87, which resulted in the following misstatements:

- Lease receivable and deferred inflows balances were understated by \$2,230,937.
- Lease interest revenue was understated and lease revenue overstated by \$72,919

The Town immediately acknowledged the errors, subsequently evaluated its leases, and corrected its financial statements to report the lease balances.

Recommendation

We recommend the Town:

- Research and seek technical guidance for the implementation of new GASB standards
- Strengthen its financial statement preparation process by ensuring someone knowledgeable of applicable reporting requirements independently reviews the financial statements and notes. This review should be appropriately detailed to ensure all required new GASB standards are implemented.

Town's Response

Town staff acknowledge the State Auditor's Office's opinion on this matter.

Auditor's Remarks

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

Applicable Laws and Regulations

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

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

INDEPENDENT AUDITOR'S REPORT

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

Town of Steilacoom January 1, 2022 through December 31, 2022

Mayor and Town Council
Town of Steilacoom
Steilacoom, 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, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Steilacoom, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated June 27, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 Town'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. However, we identified certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2022-001 that we consider to be significant deficiencies.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town'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*.

TOWN'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this

report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

June 27, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Town of Steilacoom January 1, 2022 through December 31, 2022

Mayor and Town Council
Town of Steilacoom
Steilacoom, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Steilacoom, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Town'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, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Steilacoom, as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the General fund and Parks Enhancement fund, 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 Town 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 15 to the financial statements, in 2022, the Town 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 Town'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 Town'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 Town'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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2024 on our consideration of the Town'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 Town'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 Town's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

June 27, 2024

FINANCIAL SECTION

Town of Steilacoom 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

General Fund – Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – 2022

Parks Enhancement Fund – Statement of Revenues, Expenditures and Changes in Fund
Balance – Budget and Actual — 2022

Statement of Net Position – Proprietary Funds – 2022

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2022

Reconciliation of Proprietary Funds Statement of Revenues, Expenses and Changes in
Fund Net Position to Business Type Statement of Activities – 2022

Statement of Cash Flows – Proprietary Funds – 2022

Notes to Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions – LEOFF 1, LEOFF 2, PERS 1, PERS 2/3 – 2022

Schedule of Proportionate Share of Net Pension Liability – LEOFF 1, LEOFF 2, PERS 1,
PERS 2/3 – 2022

TOWN OF STEILACOOM MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

As management of the Town of Steilacoom, we offer readers of the Town of Steilacoom's financial statements this narrative overview and analysis of the financial activities of the Town of Steilacoom for the fiscal year ended December 31, 2022. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished within the basic financial statements including the financial statement notes.

FINANCIAL HIGHLIGHTS:

1. The assets and deferred outflows of resources of the Town of Steilacoom exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$64,321,305 (*net position*). Of the total amount, \$27,999,195 (*unrestricted*) may be used to meet the government's ongoing obligations to citizens and creditors.
2. The government's total net position increased by \$4,781,864 comprised of an increase of \$2,841,123 related to governmental activities and \$1,940,741 increase related to business-type activities.
3. As of the close of the current fiscal year, the Town of Steilacoom's governmental funds reported combined ending fund balances of \$12,620,873, an increase of \$1,285,233 in comparison with the prior year. Approximately \$6,505,754 of this total is *available for spending* at the government's discretion (*unassigned*).

This increase primarily reflects accumulating resources for future infrastructure investments which are not reflected in the governmental statements but are reflected in the entity-wide statements, financial assistance received in relation to the COVID-19 pandemic, and prudent financial management.

4. At the end of the current fiscal year, the unassigned fund balance for the general fund was \$6,505,754 or approximately 116% of the total general fund non-capital, ongoing expenditures.
5. The Town of Steilacoom has no external debt associated with bonds or loans; however, the Town does recognize long-term liabilities for compensated absences and the net pension liabilities related to the Town's participation in statewide retirement plans. The Town also recognizes deferred inflows, outflows, and net pension assets of resources associated with State-managed pension plans in which we participate.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the Town of Steilacoom's basic financial statements. The Town of Steilacoom's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Steilacoom's finances, in a manner similar to private-sector business.

The *Statement of Net Position* presents information on all the Town of Steilacoom's assets and liabilities, with the difference between the two reported as *Net Position*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Steilacoom is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave are some examples).

Both government-wide financial statements distinguish functions of the Town of Steilacoom that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Steilacoom include general government, public safety, streets, economic development, and culture and recreation. The business-type activities of the Town of Steilacoom include an electric utility, water utility, sewer utility, and storm drain utility.

The government-wide financial statements include only the Town of Steilacoom itself. The Town has no other *component units* for which it is financially accountable.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Steilacoom, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Town of Steilacoom can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in *governmental funds* with similar information presented in *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. All these statements provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Steilacoom maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, and Parks Enhancement Fund. The General Fund and Capital Projects Fund are major funds. The Parks Enhancement Fund is also reported as a major fund.

The Town of Steilacoom adopts a biannual appropriated budget for all its funds. A budgetary comparison statement has been provided for the General Fund and the Parks Enhancement Fund.

Proprietary Funds

The Town of Steilacoom maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Steilacoom uses *enterprise funds* to account for its electrical utility, water utility, sewer utility, and storm drain utility.

Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the Town of Steilacoom's various functions. The Town of Steilacoom uses an internal service fund to account for its purchasing, communications, technology support, fleet management, and fleet replacement. Because these services benefit both governmental and business-type functions, the Internal Service Fund has been prorated between and reported in *governmental activities* and *business-type activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric operating fund, water operating fund, sewer operating fund, and storm drain operating fund all of which are major funds of the Town

of Steilacoom. The one internal service fund is presented in the proprietary fund statements.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report presents *required supplementary information* concerning the Town of Steilacoom's combining statements referred to earlier in connection with the nonmajor governmental and proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Steilacoom, assets exceeded liabilities by \$64,321,305 at the close of the most recent fiscal year.

By far, the largest portion of the Town of Steilacoom's net position (53% - \$34,369,172 of \$64,321,305) reflects its investment in capital assets (e.g. land, buildings, machinery, operating plant in service, and infrastructure). The Town of Steilacoom uses these capital assets to provide services to citizens; consequently, these assets are not available for future services. In the case of infrastructure, it is a matter of continuing debate within the accounting profession whether these items truly are assets once constructed and placed into operations. Although the Town of Steilacoom's investment in its capital assets is reported net of related debt of which there was none as of December 31, 2022, it should be noted that the resources that would be needed if debt existed to repay this debt would be provided from other sources, since capital assets themselves could not be used to liquidate these liabilities.

TOWN OF STEILACOOM – NET POSITION

	GOV'T ACTIVITIES	BUSINESS ACTIVITIES	2022 TOTAL	2021 TOTAL
Total Assets	\$35,912,875	\$32,638,165	\$68,551,040	\$63,818,641
Deferred Outflows	834,915	259,657	1,094,572	370,225
Total Assets and Deferred Outflows	\$36,747,790	\$32,897,822	\$69,645,612	\$64,188,866
Total Liabilities	\$724,405	\$1,234,408	\$1,958,813	\$2,082,673
Deferred Inflows of Resources	3,080,161	285,333	3,365,494	2,566,752
Net Position				
Investment in Capital Assets	\$18,760,189	\$15,608,983	\$34,369,172	\$33,903,483
Restricted	1,690,795	262,143	1,952,938	3,629,124
Unrestricted	12,492,240	15,506,955	27,999,195	22,006,834
Total Net Position	\$32,943,224	\$ 31,378,081	\$64,321,305	\$59,539,441

A portion of the Town of Steilacoom's net position (3.04% - \$1,952,938 of the \$64,321,305) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$27,999,195) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Steilacoom reported positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental and Business Type Activities – Changes in Net Position:

Governmental activities net position increased by \$2,841,123 and business-type activities increased net position by \$1,940,741 for a total increase of \$4,781,864. The key elements of the increase were the ongoing impacts of reflecting the Town's proportionate share of pension assets, liabilities, and costs in our statements for the State-managed plans in which we participate (PERS and LEOFF). The increases may also be attributed to the Town's continuing efforts in cost containment, revenue maximization and establishing charges for services in both governmental and business-type activities that reflect recovery of the true full costs of providing the services. Additionally, the Town has been very successful in obtaining third-party grant funding for infrastructure improvements.

TOWN OF STEILACOOM'S CHANGES IN NET POSITION

	GOVT'L ACTIVITIES	BUSINESS ACTIVITIES	2022 TOTAL	2021 TOTAL
Revenues				
Program Revenues				
Charges for Services	\$1,344,678	\$10,720,794	\$12,065,472	\$12,051,785
Operating Grants and Contributions	1,083,552		1,083,552	1,261,240
Capital Grants and Contributions	1,355,340	41,843	1,397,183	821,486
General Revenues				
Property Taxes	2,746,770		2,746,770	2,476,180
Other Taxes	2,403,134		2,403,134	2,295,176
Other Revenues	230,679	171,613	402,292	106,879
Total Revenues	\$9,154,153	\$10,934,250	\$20,088,403	\$19,012,746
Expenses				
General Government	\$1,172,572		\$1,172,572	\$828,531
Public Safety	2,611,959		2,611,959	2,457,969
Streets	1,763,034		1,763,034	1,435,033
Economic Development	256,918		256,918	401,081
Culture and Recreation	508,547		508,547	502,906
Interest on Debt				
Electric Utility		\$3,839,622	3,839,622	3,468,321
Water Utility		1,432,386	1,432,386	1,203,234
Sewer Utility		3,326,782	3,326,782	3,080,799
Storm Drain Utility		394,719	394,719	366,666
Other				
Total Expenses	\$6,313,030	\$8,993,509	\$15,306,539	\$13,744,540
Increase/Decrease in Net Position	\$2,841,123	\$1,940,741	\$4,781,864	\$5,268,206
Net Position – January 1	\$30,102,101	\$29,437,340	\$59,539,441	\$54,271,235
Net Position – Dec. 31	\$32,943,224	\$31,378,081	\$64,321,305	\$59,539,441

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:

As noted earlier, the Town of Steilacoom uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town of Steilacoom's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town of Steilacoom's financing requirements. Unassigned *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Steilacoom's governmental funds reported combined ending fund balances of \$12,620,873, an increase of \$1,285,233 from the prior year. The principal reason for this increase was the delay in investment in

infrastructure, which is expensed, not capitalized, at the governmental level and pandemic-related assistance received by the Town. Of the \$12,620,873, approximately \$6,505,754 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either restricted or assigned indicating that external or internal limitations have been placed on the use of those funds and they are not available for general purposes (\$6,115,119).

The General Fund is the chief operating fund of the Town of Steilacoom. At the end of the current fiscal year, unassigned fund balance of the general fund was \$6,505,754, which represents 100% of the general fund total fund balance and approximately 116% of total expenditures excluding internal transfers for the current fiscal year.

The Town of Steilacoom's General Fund balance increased by approximately \$1,295,752 reflecting pandemic-related financial assistance received, better than anticipated revenues, and very conservative financial efforts at cost containment.

The Capital Projects fund has an ending fund balance of \$5,626,077 reflecting an increase of \$7,638 for the year. This increase was due primarily to conservative budgeting and strong oversight of the capital projects constructed during the year.

The Parks Enhancement fund has an ending fund balance of \$489,042 reflecting a decrease of \$18,157 for the year resulting from constructing projects delayed due to the COVID-19 pandemic response.

Proprietary Funds

The Town of Steilacoom's proprietary funds provide information on the Town's utility operations. Complete disclosure of relevant information may be found in the government-wide financial statements. Highlights for 2022 include:

Electric Utility – Town projects were delayed due to COVID-19. A 6.3% rate increase was approved effective January 1, 2022.

Water Utility –Town projects were delayed due to COVID-19. A 6.3% rate increase was approved effective January 1, 2022.

Sewer Utility - Increases in infrastructure were due to work performed on Town projects, however, several projects were delayed due to COVID-19. A 6.3% rate increase was approved effective January 1, 2022.

Storm Water Utility –Other Town projects were delayed due to COVID-19. A 6.3% rate increase was approved effective January 1, 2022.

General Fund Budgetary Highlights

The original Revenues and Other Resources spending plan/budget for 2022 of \$6,082,325 was amended by \$807,963 to \$6,890,288 to reflect pandemic related financial assistance and some other minor changes. The actual total revenue and other resources received was \$6,903,646 or a difference of \$13,358 reflecting normal fluctuations/deviations.

The original General Fund Expenditure and Other Uses spending plan/budget for 2022 of \$6,063,724 was amended by \$385,000 to \$6,446,724 during the year to reflect authorized over hire positions in the Department of Public Safety. Actual expenditures of \$5,607,894 were \$838,830 less than the 2022 portion of the spending plan. The deviation reflects normal fluctuations/deviations due primarily to personnel differences and cost containment in response to the COVID-19 pandemic.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets

The Town of Steilacoom's investment in capital assets for its governmental and business-type activities as of December 31, 2022, amounts to \$34,369,172 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, operating plant in service (utilities), and infrastructure (roads, etc).

Major capital asset events during the current year included the following:

1. Capitalization of energy efficiency improvements to certain Town structures.
2. Capitalization of Union Avenue roundabout and Rigney Road improvements.
3. Capitalization and/or removal of the various pieces of equipment acquired or disposed of during the year.
4. Capitalization of utility-related infrastructure.

Additional information related to changes in capital assets may be found in Note VI to the financial statements.

Long-Term Liabilities

The Town of Steilacoom has no external debt associated with bonds or loans; however, the Town does recognize long-term liabilities for compensated absences and the net pension obligations related to the Town's participation in statewide retirement plans.

ECONOMIC FACTORS AND THE 2021-2022 BIENNIUM BUDGET:

The Town considered the following factors when preparing the 2021-2022 Biennium Budget:

1. The national and statewide economies continue experiencing a moderate economic recovery; however, this economy was dramatically impacted by the response to the COVID-19 pandemic.

2. The owner of the mill site property, the one industrial property in Town, has not submitted a redevelopment plan. Consequently, we did not and do not anticipate anything occurring with this property during the budget period.
3. Utility rate increases for the electric, water, sewer and storm utilities were adopted effective January 1, 2021, with additional rate increases effective January 1, 2022. The rate structure for each utility is reviewed each year and again during the upcoming biennium budget process.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the Town of Steilacoom's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Steilacoom
Paul Loveless, Town Administrator
1030 Roe Street
Steilacoom, Washington 98388

TOWN OF STEILACOOM
STATEMENT OF NET POSITION
DECEMBER 31, 2022

		<u>PRIMARY GOVERNMENT</u>	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$145,414	\$262,318	\$407,732
Investments	12,632,931	15,497,670	28,130,601
Taxes Receivable	20,734		20,734
Accounts Receivable (net)	945,143	1,007,051	1,952,194
Due From Other Governments	0		0
Lease Receivable	2,230,937		2,230,937
Restricted Cash and Investments			\$0
Nondepreciable Capital Assets	5,554,766		\$5,554,766
Buildings	6,723,830	\$72,350	6,796,180
Accumulated Depreciation	(5,588,173)	(72,350)	(5,660,523)
Equipment	1,422,755	2,062,488	3,485,243
Accumulated Depreciation	(1,011,288)	(1,459,044)	(2,470,332)
Operating Plant In Service		31,500,122	31,500,122
Accumulated Depreciation		(16,494,583)	(16,494,583)
Infrastructure	27,593,590		27,593,590
Accumulated Depreciation	(15,935,291)		(15,935,291)
Net Pension Assets	1,177,527	262,143	1,439,670
Total Assets:	<u>\$35,912,875</u>	<u>\$32,638,165</u>	<u>\$68,551,040</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>			
Deferred Outflows Related to Pensions	\$834,915	\$259,657	\$1,094,572
Total Deferred Outflows:	<u>\$834,915</u>	<u>\$259,657</u>	<u>\$1,094,572</u>
Total Assets and Deferred Outflows	<u>\$36,747,790</u>	<u>\$32,897,822</u>	<u>\$69,645,612</u>
<u>LIABILITIES:</u>			
Accounts Payable	\$324,099	\$761,436	\$1,085,535
Deposits	4,750	185,950	190,700
Due To Other Governmental Units	1,104	50,628	51,732
Compensated Absences	40,399	16,943	57,342
Other Liabilities			0
Noncurrent Liabilities:			
Compensated Absences	\$121,195	\$50,830	\$172,025
Net Pension Liability	232,858	168,621	401,479
Total Liabilities:	<u>\$724,405</u>	<u>\$1,234,408</u>	<u>\$1,958,813</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>			
Deferred Inflows Related to Pensions	\$849,224	\$285,333	\$1,134,557
Deferred Inflows Related to Leases	\$2,230,937		\$2,230,937
Total Deferred Inflows of Resources:	<u>\$3,080,161</u>	<u>\$285,333</u>	<u>\$3,365,494</u>
<u>NET POSITION:</u>			
Investment in Capital Assets	\$18,760,189	\$15,608,983	\$34,369,172
Restricted For:			
Capital Projects	24,226		24,226
Culture and Recreation	489,042		489,042
Pensions	1,177,527	262,143	1,439,670
Assigned			0
Unrestricted	12,492,240	15,506,955	27,999,195
Total Net Position:	<u>\$32,943,224</u>	<u>\$31,378,081</u>	<u>\$64,321,305</u>

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

TOWN OF STEILACOOM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

PROGRAM REVENUES					NET (EXPENSE) REVENUES AND CHANGE		
					IN NET POSITION		
					PRIMARY GOVERNMENT		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities:							
General Government	\$1,172,572	\$503,500	\$1,004,617	\$499,324	\$834,869		\$834,869
Public Safety	2,611,959	179,200	78,935		(2,353,824)		(2,353,824)
Streets	1,763,034	1,575		\$856,016	(905,443)		(905,443)
Economic Development	256,918	234,986			(21,932)		(21,932)
Culture and Recreation	508,547	415,417			(93,130)		(93,130)
Total Governmental Activities:	\$6,313,030	\$1,334,678	\$1,083,552	\$1,355,340	(\$2,539,460)	\$0	(\$2,539,460)
Business-Type Activities:							
Electric	\$3,839,622	\$4,418,240		\$16,650		\$595,268	\$595,268
Water	1,432,386	1,764,030		11,550		343,194	343,194
Sewer	3,326,782	3,722,778		11,368		407,364	407,364
Storm	394,719	815,746		2,275		423,302	423,302
Total Business-Type Activities:	\$8,993,509	\$10,720,794	\$0	\$41,843	\$0	\$1,769,128	\$1,769,128
Total Primary Government:	\$15,306,539	\$12,055,472	\$1,083,552	\$1,397,183	(\$2,539,460)	\$1,769,128	(\$770,332)
General Revenues:							
Property Taxes					\$2,746,770		\$2,746,770
Sales Taxes					747,900		747,900
Franchise Fees					954,031		954,031
Other Taxes					701,203		701,203
Investment Earnings					230,679	\$171,613	402,292
Total General Revenues					\$5,380,583	\$171,613	\$5,552,196
Change In Net Position					\$2,841,123	\$1,940,741	\$4,781,864
Net Position - January 1, 2022					\$30,102,101	\$29,437,340	\$59,539,441
Net Position - December 31, 2022					\$32,943,224	\$31,378,081	\$64,321,305

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

TOWN OF STEILACOOM
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	GENERAL FUND	CAPITAL PROJECTS FUND	PARKS ENHANCEMENT FUND	TOTAL
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</u>				
ASSETS:				
Cash and Cash Equivalents	\$90,320	\$573	\$26,573	\$117,466
Investments	6,352,606	5,060,777	457,465	11,870,848
Taxes Receivable	20,734			20,734
Accounts Receivable (net)	329,801	607,542	7,800	945,143
Lease Receivable	2,002,137	228,800		2,230,937
TOTAL ASSETS :	\$8,795,598	\$5,897,692	\$491,838	\$15,185,128
DEFERRED OUTFLOWS OF RESOURCES:				
TOTAL DEFERRED OUFLOWS OF RESOURCES:	\$0	\$0	\$0	\$0
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	\$8,795,598	\$5,897,692	\$491,838	\$15,185,128
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</u>				
LIABILITIES:				
Accounts Payable	\$261,119	\$42,815	\$2,796	\$306,730
Deposits Payable	4,750			4,750
Due To Other Governmental Units	1,104			1,104
TOTAL LIABILITIES:	\$266,973	\$42,815	\$2,796	\$312,584
DEFERRED INFLOWS OF RESOURCES:				
Deferred Inflows Related to Unavailable Revenues	\$20,734			\$20,734
Deferred Inflows Related to Leases	2,002,137	\$228,800		2,230,937
TOTAL DEFERRED INFLOWS OF RESOURCES:	\$2,022,871	\$228,800	\$0	\$2,251,671
FUND BALANCE:				
Restricted		\$24,226	\$489,042	\$513,268
Assigned		5,601,851		5,601,851
Unassigned	\$6,505,754			6,505,754
TOTAL FUND BALANCES:	\$6,505,754	\$5,626,077	\$489,042	\$12,620,873
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES,AND FUND BALANCES	\$8,795,598	\$5,897,692	\$491,838	\$15,185,128
Amounts reported for the governmental activities in the Statement of Net Position are different because:				
Uncollected taxes are not available to pay for current-period expenditures and are shown as unearned revenues in the governmental funds.				\$20,734
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.				18,580,610
Long-term liabilities are not reported in governmental funds.				
Compensated Absences:				(160,510)
Assets, Liabilities, Deferred Inflows, and Deferred Outflows related to pensions are not reported in governmental funds				
Net Pension Assets				1,158,802
Deferred Outflows Related to Pensions				816,368
Net Pension Obligation				(220,813)
Deferred Inflows Related to Pensions				(828,843)
Reallocation of the Internal Service Fund Assets, Deferred Outflows, Liabilities, and Deferred Inflows.				
Cash/Invesments				790,031
Equipment (Net of Accumulated Depreciation)				179,579
Net Pension Assets				18,725
Deferred Outflows Related to Pensions				18,547
Accounts Payable				(17,369)
Compensated Absences				(1,084)
Net Pension Obligation				(12,045)
Deferred Inflows Related to Pensions				(20,381)
NET POSITION OF GOVERNMENTAL ACTIVITIES				\$32,943,224

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

**TOWN OF STEILACOOM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	GENERAL FUND	CAPITAL PROJECTS FUND	PARKS ENHANCEMENT FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes:				
Property	\$2,755,174			\$2,755,174
Sales and Use	656,739		\$91,161	747,900
Utility and Franchise	954,031			954,031
Other	195,335	\$505,869		701,204
Licenses & Permits	167,698			167,698
Intergovernmental	1,054,524	1,346,457	15,000	2,415,981
Charges for Service	872,326	177,707		1,050,033
Fines & Forfeitures	70,533			70,533
Interest Income	144,794	71,017	5,837	221,648
Miscellaneous	32,492		50	32,542
TOTAL REVENUES:	\$6,903,646	\$2,101,050	\$112,048	\$9,116,744
EXPENDITURES				
Current:				
General Governmental	\$1,197,579			\$1,197,579
Public Safety	3,040,646			3,040,646
Transportation	580,448			580,448
Economic And Physical Development	256,918	\$35,739		292,657
Culture and Recreation	434,099		\$21,463	455,562
Capital Outlay:				
Streets		1,328,776		1,328,776
Parks			108,742	108,742
Other	98,204	728,897		827,101
TOTAL EXPENDITURES:	\$5,607,894	\$2,093,412	\$130,205	\$7,831,511
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	\$1,295,752	\$7,638	(\$18,157)	\$1,285,233
NET CHANGE IN FUND BALANCE:	\$1,295,752	\$7,638	(\$18,157)	\$1,285,233
Fund Balance - Beginning of Year	5,210,002	5,618,439	507,199	11,335,640
Fund Balance - End of Year	<u>\$6,505,754</u>	<u>\$5,626,077</u>	<u>\$489,042</u>	<u>\$12,620,873</u>

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds:	\$1,285,233
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.	2,264,619 (1,377,687)
Change in accrual related to Other Post-Employment Benefits and change in accrual for Compensated Absences.	495,487
Revenues in the statement of activities which do not provide current financial resources and are not included the Statement of Revenues, Expenditures and Changes in Fund Balance.	(8,404)
Net adjustment for revenues or expenditures which do not require the use of current resources related to pensions (GASB 68).	132,132
Impact of combining Internal Service Fund interest income and net operating activities.	48,759
Other Adjustments.	984
Change in net position - governmental activities:	<u>\$2,841,123</u>

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

**TOWN OF STEILACOOM
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE W/ FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Taxes:				
Property	\$4,944,782	\$4,944,782	\$5,229,550	\$284,768
Sales and Use	937,918	937,918	1,288,982	351,064
Utility and Franchise	1,709,748	1,709,748	1,896,847	187,099
Other	356,267	356,267	337,741	(18,526)
Licenses & Permits	349,750	349,750	382,538	32,788
Intergovernmental	205,606	2,035,250	2,113,028	77,778
Charges for Service	1,919,397	1,751,567	1,903,638	152,071
Fines & Forfeitures	120,000	120,000	125,432	5,432
Interest Income	54,200	54,200	151,034	96,834
Miscellaneous			80,824	80,824
TOTAL REVENUES:	<u>\$10,597,668</u>	<u>\$12,259,482</u>	<u>\$13,509,614</u>	<u>\$1,250,132</u>
EXPENDITURES				
Current:				
General Governmental	\$3,682,364	\$3,707,364	\$2,328,497	\$1,378,867
Public Safety	5,678,302	6,125,802	5,705,107	420,695
Transportation	801,182	801,182	1,082,061	(280,879)
Economic And Physical Development	711,337	711,337	503,493	207,844
Culture and Recreation	1,008,074	1,008,074	872,070	136,004
Capital Outlay:				
Other			98,204	(98,204)
TOTAL EXPENDITURES:	<u>\$11,881,259</u>	<u>\$12,353,759</u>	<u>\$10,589,432</u>	<u>\$1,764,327</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	<u>(\$1,283,591)</u>	<u>(\$94,277)</u>	<u>\$2,920,182</u>	<u>\$3,014,459</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$1,388,687	\$1,388,687		(\$1,388,687)
Transfers Out				
TOTAL OTHER FINANCING SOURCES AND USES:	<u>\$1,388,687</u>	<u>\$1,388,687</u>	<u>\$0</u>	<u>(\$1,388,687)</u>
NET CHANGE IN FUND BALANCE:	\$105,096	\$1,294,410	\$2,920,182	\$1,625,772
Fund Balance - Beginning of Year	<u>3,185,719</u>	<u>3,185,719</u>	<u>3,585,572</u>	<u>399,853</u>
Fund Balance - End of Year	<u>\$3,290,815</u>	<u>\$4,480,129</u>	<u>\$6,505,754</u>	<u>\$2,025,625</u>

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

TOWN OF STEILACOOM
PARKS ENHANCEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2022
2021-2022 BUDGETED AMOUNTS (BIENNIAL)

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE W/ FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Taxes:				
Sales and Use	\$113,878	\$113,878	\$175,848	\$61,970
Utility and Franchise				
Other				
Licenses & Permits				
Intergovernmental			15,000	\$15,000
Charges for Service				
Fines & Forfeitures				
Interest Income	8,920	8,920	8,551	(\$369)
Miscellaneous			1,383	\$1,383
TOTAL REVENUES:	<u>\$122,798</u>	<u>\$122,798</u>	<u>\$200,782</u>	<u>\$77,984</u>
EXPENDITURES				
Current:				
Culture and Recreation	\$153,000	\$153,000	\$79,138	\$73,862
Capital Outlay:				
Parks	80,000	280,000	108,742	\$171,258
TOTAL EXPENDITURES:	<u>\$233,000</u>	<u>\$433,000</u>	<u>\$187,880</u>	<u>\$245,120</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	<u>(\$110,202)</u>	<u>(\$310,202)</u>	<u>\$12,902</u>	<u>\$323,104</u>
NET CHANGE IN FUND BALANCE:	<u>(\$110,202)</u>	<u>(\$310,202)</u>	<u>\$12,902</u>	<u>\$323,104</u>
Fund Balance - Beginning of Year	454,258	454,258	476,140	21,882
Fund Balance - End of Year	<u>\$344,056</u>	<u>\$144,056</u>	<u>\$489,042</u>	<u>\$344,986</u>

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

TOWN OF STEILACOOM
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2022

		----- BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS -----					
		ELECTRIC FUND	WATER FUND	SEWER FUND	STORM FUND	TOTAL PROPRIETARY FUNDS	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
<u>ASSETS AND OTHER DEBITS:</u>							
<u>CURRENT ASSETS:</u>							
Cash and Cash Equivalents		\$79,296	\$64,331	\$25,626	\$65,117	\$234,370	\$55,896
Investments		2,829,401	3,408,889	5,487,651	3,009,647	14,735,588	1,524,165
Accounts Receivable (net)		334,037	251,894	358,763	62,357	1,007,051	
Net Current Assets:		<u>\$3,242,734</u>	<u>\$3,725,114</u>	<u>\$5,872,040</u>	<u>\$3,137,121</u>	<u>\$15,977,009</u>	<u>\$1,580,061</u>
<u>NONCURRENT ASSETS:</u>							
Capital Assets							
Land							
Buildings			\$72,350			\$72,350	
Equipment		\$30,644	60,883	\$36,029		127,556	\$2,512,899
Operating Plant In Service		7,870,735	5,547,348	12,104,502	\$5,977,537	31,500,122	
Accumulated Depreciation		(5,251,047)	(2,504,737)	(6,743,491)	(2,192,970)	(16,692,245)	(1,732,120)
Net Capital Assets:		<u>\$2,650,332</u>	<u>\$3,175,844</u>	<u>\$5,397,040</u>	<u>\$3,784,567</u>	<u>\$15,007,783</u>	<u>\$780,779</u>
Net Pension Assets		<u>\$124,830</u>	<u>\$49,932</u>	<u>\$56,174</u>	<u>\$12,483</u>	<u>\$243,419</u>	<u>\$37,449</u>
Total Noncurrent Assets:		<u>\$2,775,162</u>	<u>\$3,225,776</u>	<u>\$5,453,214</u>	<u>\$3,797,050</u>	<u>\$15,251,202</u>	<u>\$818,228</u>
TOTAL ASSETS:		<u>\$6,017,896</u>	<u>\$6,950,890</u>	<u>\$11,325,254</u>	<u>\$6,934,171</u>	<u>\$31,228,211</u>	<u>\$2,398,289</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>							
Deferred Outflows Related to Pensions		<u>\$123,646</u>	<u>\$49,458</u>	<u>\$55,641</u>	<u>\$12,365</u>	<u>\$241,110</u>	<u>\$37,094</u>
TOTAL DEFERRED OUFLOWS:		<u>\$123,646</u>	<u>\$49,458</u>	<u>\$55,641</u>	<u>\$12,365</u>	<u>\$241,110</u>	<u>\$37,094</u>
<u>LIABILITIES:</u>							
<u>CURRENT LIABILITIES:</u>							
Accounts Payable		\$437,579	\$54,405	\$241,211	\$10,872	\$744,067	\$34,738
Deposits		185,950				185,950	
Due To Other Governmental Units				50,628		50,628	
Compensated Absences		5,085	5,763	4,453	1,371	16,672	542
Total Current Liabilities:		<u>\$628,614</u>	<u>\$60,168</u>	<u>\$296,292</u>	<u>\$12,243</u>	<u>\$997,317</u>	<u>\$35,280</u>
<u>NON-CURRENT LIABILITIES:</u>							
Compensated Absences Payable		\$15,256	\$17,290	\$13,358	\$4,114	\$50,018	\$1,625
Net Pension Liability		80,296	32,118	36,133	8,030	156,577	24,089
Total Noncurrent Liabilities:		<u>\$95,552</u>	<u>\$49,408</u>	<u>\$49,491</u>	<u>\$12,144</u>	<u>\$206,595</u>	<u>\$25,714</u>
TOTAL LIABILITIES:		<u>\$724,166</u>	<u>\$109,576</u>	<u>\$345,783</u>	<u>\$24,387</u>	<u>\$1,203,912</u>	<u>\$60,994</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>							
Deferred Inflows Related to Pensions		<u>\$135,873</u>	<u>\$54,349</u>	<u>\$61,143</u>	<u>\$13,587</u>	<u>\$264,952</u>	<u>\$40,762</u>
TOTAL DEFERRED INFLOWS OF RESOURCES:		<u>\$135,873</u>	<u>\$54,349</u>	<u>\$61,143</u>	<u>\$13,587</u>	<u>\$264,952</u>	<u>\$40,762</u>
<u>NET POSITION:</u>							
Investment in Capital Assets		\$2,650,332	\$3,175,844	\$5,397,040	\$3,784,567	\$15,007,783	\$780,779
Restricted - Net Pension Assets		124,830	49,932	56,174	12,483	243,419	37,449
Unrestricted		2,506,341	3,610,647	5,520,755	3,111,512	14,749,255	1,515,399
TOTAL NET POSITION:		<u>\$5,281,503</u>	<u>\$6,836,423</u>	<u>\$10,973,969</u>	<u>\$6,908,562</u>	<u>\$30,000,457</u>	<u>\$2,333,627</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise operations.						<u>\$1,377,624</u>	
Net Position of Business-Type Activities:						<u>\$31,378,081</u>	

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

TOWN OF STEILACOOM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	----- BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS -----					GOVERNMENTAL ACTIVITIES
	ELECTRIC UTILITY	WATER UTILITY	SEWER UTILITY	STORM WATER UTILITY	TOTAL PROPRIETARY FUNDS	INTERNAL SERVICE
Operating Revenues						
Charges For Sales And Services						
Electric Sales and Services	\$4,418,240				\$4,418,240	
Water Sales and Services		\$1,764,030			1,764,030	
Sewer Sales and Services			\$3,722,778		3,722,778	
Storm Drain Sales and Services				\$815,746	815,746	
Other Sales and Services						\$714,720
Total Operating Revenue	<u>\$4,418,240</u>	<u>\$1,764,030</u>	<u>\$3,722,778</u>	<u>\$815,746</u>	<u>\$10,720,794</u>	<u>\$714,720</u>
Operating Expenses						
Cost of Sales and Services	\$3,561,024	\$1,334,943	\$3,050,382	\$291,762	\$8,238,111	\$532,313
Depreciation	<u>288,157</u>	<u>107,002</u>	<u>285,959</u>	<u>112,516</u>	<u>793,634</u>	<u>104,441</u>
Total Operating Expenses	<u>\$3,849,181</u>	<u>\$1,441,945</u>	<u>\$3,336,341</u>	<u>\$404,278</u>	<u>\$9,031,745</u>	<u>\$636,754</u>
Operating Income	<u>\$569,059</u>	<u>\$322,085</u>	<u>\$386,437</u>	<u>\$411,468</u>	<u>\$1,689,049</u>	<u>\$77,966</u>
Nonoperating Revenues and Expenses						
Investment Earnings	\$29,309	\$37,842	\$62,447	\$33,218	\$162,816	\$17,826
Total Nonoperating Revenues and Expenses	<u>\$29,309</u>	<u>\$37,842</u>	<u>\$62,447</u>	<u>\$33,218</u>	<u>\$162,816</u>	<u>\$17,826</u>
Income Before Contributions	<u>\$598,368</u>	<u>\$359,927</u>	<u>\$448,884</u>	<u>\$444,686</u>	<u>\$1,851,865</u>	<u>\$95,792</u>
Capital Contributions						
Developers/Others	<u>\$16,650</u>	<u>\$11,550</u>	<u>\$11,368</u>	<u>\$2,275</u>	<u>\$41,843</u>	
Total Capital Contributions	<u>\$16,650</u>	<u>\$11,550</u>	<u>\$11,368</u>	<u>\$2,275</u>	<u>\$41,843</u>	<u>\$0</u>
Change In Net Position:	<u>\$615,018</u>	<u>\$371,477</u>	<u>\$460,252</u>	<u>\$446,961</u>	<u>\$1,893,708</u>	<u>\$95,792</u>
Total Net Position - Beginning	<u>\$4,666,485</u>	<u>\$6,464,946</u>	<u>\$10,513,717</u>	<u>\$6,461,601</u>	<u>\$28,106,749</u>	<u>\$2,237,835</u>
Total Net Position- Ending	<u><u>\$5,281,503</u></u>	<u><u>\$6,836,423</u></u>	<u><u>\$10,973,969</u></u>	<u><u>\$6,908,562</u></u>	<u><u>\$30,000,457</u></u>	<u><u>\$2,333,627</u></u>

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

TOWN OF STEILACOOM
RECONCILIATION OF PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION TO BUSINESS TYPE STATEMENT OF ACTIVITIES
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Change in Net Position - Statement of Revenues, Expenses, and Changes in Fund Net Position:	\$1,893,708
Net Impact of Consolidation of the Business-Type Activities in the Internal Service Fund: and Other Adjustments:	47,033
Change in Net Position - Statement of Activities:	<u><u>\$1,940,741</u></u>

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

TOWN OF STEILACOOM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	-----BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS -----					GOVERNMENTAL
	ELECTRIC	WATER	SEWER	STORM	TOTAL	ACTIVITIES
	UTILITY	UTILITY	UTILITY	WATER UTILITY	PROPRIETARY	INTERNAL SERVICE
					FUNDS	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$4,412,059	\$1,731,046	\$3,723,452	\$820,517	\$10,687,074	\$714,720
Payments to suppliers	(2,880,347)	(1,104,665)	(2,803,159)	(236,254)	(7,024,425)	(334,099)
Payments for employee wages/benefits	(635,245)	(230,355)	(242,886)	(50,858)	(1,159,344)	(168,340)
Net cash provided by operating activities	<u>\$896,467</u>	<u>\$396,026</u>	<u>\$677,407</u>	<u>\$533,405</u>	<u>\$2,503,305</u>	<u>\$212,281</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Capital contributions						
Developers/Others	\$16,650	\$11,550	\$11,368	\$2,275	\$41,843	
Purchase of capital assets	(144,597)		(302,117)		(\$446,714)	(\$54,944)
Net cash provided (used) by capital and related financing activities	<u>(\$127,947)</u>	<u>\$11,550</u>	<u>(\$290,749)</u>	<u>\$2,275</u>	<u>(\$404,871)</u>	<u>(\$54,944)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	\$29,309	\$37,842	\$62,447	\$33,218	\$162,816	\$17,826
Investment Purchases	(1,049,092)	(488,197)	(684,968)	(567,861)	(2,790,118)	(\$180,946)
Net cash provided (used) by investing activities	<u>(\$1,019,783)</u>	<u>(\$450,355)</u>	<u>(\$622,521)</u>	<u>(\$534,643)</u>	<u>(\$2,627,302)</u>	<u>(\$163,120)</u>
Net increase in cash and cash equivalents	<u>(\$251,263)</u>	<u>(\$42,779)</u>	<u>(\$235,863)</u>	<u>\$1,037</u>	<u>(\$528,868)</u>	<u>(\$5,783)</u>
Cash and equivalents - January 1	\$330,559	\$107,110	\$261,489	\$64,080	\$763,238	\$61,679
Cash and equivalents - December 31	<u>\$79,296</u>	<u>\$64,331</u>	<u>\$25,626</u>	<u>\$65,117</u>	<u>\$234,370</u>	<u>\$55,896</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating Income	<u>\$569,059</u>	<u>\$322,085</u>	<u>\$386,437</u>	<u>\$411,468</u>	<u>\$1,689,049</u>	<u>\$77,966</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	\$288,157	\$107,002	\$285,959	\$112,516	\$793,634	\$104,441
(Increase) decrease in accounts receivable	6,181	(32,984)	674	4,771	(21,358)	25,000
Increase (decrease) in customer deposits	(1,125)				(1,125)	
Increase (decrease) in accounts payable	79,952	15,365	34,699	6,742	136,758	24,837
Increase (decrease) in intergovernmental payable			(9,929)		(9,929)	
Increase (decrease) in compensated absences	8,100	3,946	2,726	3,294	18,066	(2,728)
(Increase) Decrease in Deferred Outflows	(85,179)	(37,918)	(40,254)	(8,518)	(171,869)	(23,631)
Increase (Decrease) in Deferred Inflows	(225,535)	(54,073)	(83,420)	(22,554)	(385,582)	(85,731)
(Increase) Decrease in Net Pension Assets	212,231	51,186	78,650	21,223	363,290	80,522
Increase (Decrease) in Net Pension Obligation	44,626	21,417	21,865	4,463	92,371	11,605
Total adjustments	<u>\$327,408</u>	<u>\$73,941</u>	<u>\$290,970</u>	<u>\$121,937</u>	<u>\$814,256</u>	<u>\$134,315</u>
Net cash provided by operating activities	<u>\$896,467</u>	<u>\$396,026</u>	<u>\$677,407</u>	<u>\$533,405</u>	<u>\$2,503,305</u>	<u>\$212,281</u>

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

THE TOWN OF STEILACOOM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Steilacoom have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described in this section.

A. The Reporting Entity

The Town of Steilacoom, incorporated in 1854, is a municipal corporation governed by an elected Mayor and five-member Town Council. The Town operates under the laws of the State of Washington applicable to 4th class Towns. As required by generally accepted accounting principles, the financial statements present the Town of Steilacoom – the primary government – and its component units of which there were none in 2022.

B. Basis of Presentation - 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 the non-fiduciary activities of the primary government. *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. Likewise, the *primary government* would be reported separately from certain legally separate *component units* for which the primary government is financially accountable. In 2022, the Town had no component units.

The Statement of Activities attempts to demonstrate the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

As a general rule, the effect of interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are when the utilities provide services to the general government for which they are compensated at the same rates as other customers.

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

The Town reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund.

The *Capital Projects Fund* accounts for resources received and utilized for construction or significant repair of general governmental assets including but not limited to infrastructure, buildings, etc.

The *Parks Enhancement Fund* accounts for resources provided from the special tax approved by voters in 2000 and used for enhancements to the parks in the Town of Steilacoom.

The government reports the following major proprietary funds:

The *Electric Utility* accounts for the activities of the government's electric distribution system.

The *Water Utility* accounts for the activities of the government's water distribution system.

The *Sewer Utility* accounts for the activities of the government's sewer collection system.

The *Storm Drain Utility* accounts for the activities of the government's storm drain collection system.

Additionally, the government reports the following fund types:

The *Internal Service Fund* accounts for purchasing, central inventory, technology support, fleet maintenance and replacement, and communications provided to other Town departments. No services or goods are provided to outside agencies or other governments.

C. Measurement Focus and Basis of Accounting

1. Government-Wide and Governmental Funds

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected

within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences or claims and judgments, are recorded only when payment is due.

Interest, property taxes collected within 60 days of year-end, and third-party billings associated with the current period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

2. Proprietary Funds

The proprietary funds' statements are reported using the economic resource measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utilities are charges to customers for the services provided.

Operating expenses for the enterprise and internal service fund include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first and then unrestricted resources.

D. Budgetary Information

Scope of the Budget:

Biannual appropriated budgets are adopted for all funds at the fund level on either the modified accrual or full accrual basis of accounting depending upon the fund type.

Annual "spending plans" are developed as management tools; however, legal authorizations are established for the two-year period.

Appropriations for all funds lapse at the end of the biennium.

Amending the Budget:

The Town Administrator is authorized to transfer budgeted amounts within a given fund; however, any revisions that alter the total expenditures must be approved by the Town Council.

When the Town Council determines that it is in the best interest of the Town to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by the majority of the Council after conducting two public hearings.

2022 was the second year of the 2021-2022 Biennium. The budget and actual amounts shown in the financial statements reflect the total appropriation for the biennium and the actual revenues and expenditures for 2021 and 2022, both years of the biennium.

For the 2021-2022 Biennium, the following budget and actual activity occurred for the General and Parks Enhancement Funds.

General Fund	2021	2022	Total
Original Budget	\$5,828,385	\$6,074,574	\$11,902,959
Agency Portion	10,850	10,850	21,700
TOS Budget	\$5,817,535	\$6,063,724	\$11,881,259
Final Budget	\$5,915,885	\$6,459,574	\$12,375,459
Agency Portion	10,850	10,850	21,700
Adjusted Budget	\$5,905,035	\$6,448,724	\$12,353,759
Expenditures	4,981,538	5,607,894	10,589,432
Difference	\$923,497	\$840,830	\$1,764,327

Parks Enhancement Fund	2021	2022	Total
Original Budget	\$114,000	\$119,000	\$233,000
Final Budget	164,000	269,000	433,000
Expenditures	57,675	130,205	187,880
Difference	\$106,325	\$138,795	\$245,120

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

On December 31, 2022, the Town's cash and cash equivalents were:

HomeStreet Bank:	\$ 343,342
Key Bank:	63,840
Change Fund/Petty Cash:	<u>550</u>
Total:	<u>\$ 407,732</u>

It is the policy of the Town to prorate the interest earned on cash deposits and investments to the various funds of the Town based upon their respective share of the combined cash and investment balance at the end of each month.

2. Investments

See Note IV – Deposits and Investments.

3. Receivables

Taxes receivable consists of property taxes. Property taxes are considered fully collectible and no allowance has been established.

Trade accounts receivable consist primarily of charges for utility services. 25% of the balances in excess of 90 days comprise the trade accounts receivable allowance for uncollectible accounts. Trade accounts receivable are shown net of the associated allowance.

Concentration of Credit Risk – The Town grants credit to the utility customers all of whom are local residents and some of whom have utility deposits to act as collateral. No single customer comprises more than five percent of the total receivable at year-end.

4. Restricted Assets – Net Position

The government-wide Statement of Net Position reports \$1,952,938 of restricted component of net position, which is restricted by enabling legislation or contractual agreement.

The restrictions include:

	GOVERNMENTAL	BUSINESS	TOTAL
Capital Projects	\$ 24,226		\$ 24,226
Culture and Recreation	\$489,042		489,042
Pensions	1,177,527	\$ 262,143	1,439,670
Total	\$1,690,795	\$ 262,143	\$1,952,938

For the purposes of calculating the restricted net position related to culture/recreation, the Town includes 100% of the net resources in the Parks Enhancement Fund.

For purposes of calculating the restricted net position related to the net pension asset, the Town includes the net pension asset only.

5. Capital Assets

Capital assets, which include but are not limited to property, plant, equipment, and infrastructure assets, are reported in applicable government or business type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more the \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated or contributed capital assets are recorded at the acquisition value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government are depreciated using the straight-line method over the estimated useful life of the asset. (See Note VI for additional disclosure).

6. Net Pension Assets

This account represents the Town's portion of the net pension assets held by the State of Washington – Department of Retirement Systems.

7. Deferred Outflows of Resources

This balance represents contributions made to the Department of Retirement Systems for the PERS and LEOFF retirement systems that the Town participates in. These resources are applicable to future reporting periods.

8. Accounts Payable

Accounts Payable represent amounts owed to third parties for goods or services received as of December 31 and for which payment is usually made within 30-60 days of year-end.

9. Deposits

Deposits represent amounts held for either utility customers or for individuals renting Town facilities. These amounts are usually refunded once the individual either discontinues utility services or holds their event.

10. Due to Other Governmental Units

The Town collects monies for other governmental units. The balance in this account represents those funds which had not been remitted to those governments as of December 31.

11. Compensated Absences

It is the policy of the government to permit employees to accumulate earned but unused vacation and sick pay benefits.

Personnel Regulations state sick leave hours may be accumulated up to 960 hours (1,000 hours for members of the Public Works – Teamsters bargaining unit). At termination of employment, employees do not receive cash payment for any accumulated sick leave. As such, no liability is recognized on the financial statements for accumulated sick leave balances.

Personnel Regulations state 240 vacation hours may be accumulated. Any excess hours earned, unless the Town Administrator has granted a waiver, are lost once the balance exceeds the 240-hour threshold. Upon termination, employees will be paid for any unused vacation balance up to 240 hours.

Vacation is accrued to and expended/expensed from its respective funds. Total vacation compensated absence accruals for year-end 2022 for all governmental funds were \$161,594 and for proprietary funds, accruals were \$67,773 for a total of \$229,367 (at the Government-wide level once applicable balances associated with the Town's Internal Service Fund are allocated).

12. Net Pension Liability

This balance represents the Town's portion of the unfunded liabilities of the pension systems that the Town participates in that are managed by the Washington State Department of Retirement Systems.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Deferred Inflows of Resources

This balance represents contributions made by the Town and used by the Department of Retirement Systems for the PERS and LEOFF retirement systems that the Town participates in.

Additionally, starting in 2022, an amount equal to the Lease Receivable is included to reflect that these resources are not available and will not be received until future periods. This is a direct result of the implementation of Government Accounting Standards Statement Number 87.

15. Fund Balance

Governmental funds report the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent:

- ***Nonspendable*** fund balance includes amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact (the principal of an endowment fund, for example).
- ***Restricted*** fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers (for example, grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ***Committed*** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The Mayor and Town Council are the Town's highest level of authority that designates commitments of fund balance.

- **Assigned** fund balance comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. The Mayor and Town Council are the Town's highest level of authority that designates assignments of fund balance.

- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

The Town follows the practice of spending funds in the following order when the option exists in governmental funds: restricted, committed, assigned, then unassigned.

NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. Reconciling items include:

Uncollected property taxes	\$ 20,734
Capital assets associated with governmental operations	18,580,610
Compensated absences	(160,510)
Assets, Liabilities, Deferred Inflows, and Deferred Outflows related to pensions	925,514
Consolidation/allocation of the Internal Service Fund's Assets, Deferred Inflows, Liabilities, Deferred Outflows	956,003
Total Net Adjustments:	\$ 20,322,351

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

Capitalization of capital assets versus expensing them	\$2,264,619
Depreciation of capital assets	(1,377,687)
Other Post-Employment Benefit and Compensated Absences Accrual Change	495,487
Property taxes recognized on a full-accrual basis	(8,404)
Net impact of revenues or expenditures which do not require the use of current resources related to pensions	132,132
Net impact of combining Internal Service Fund operations/other adjustments	48,759
Other adjustments	984
Total Net Adjustments:	\$1,555,890

NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the Town of Steilacoom based upon the fully adopted biennium budget.

B. Related Party Transactions

Other than within the primary government itself (between funds), the Town has not entered into any related party transactions. Additionally, the Town made no loans to or received loans from the Mayor, Council, and members of the management team, or any other individual, group or entity which could be considered a related party.

NOTE IV -DEPOSITS AND INVESTMENTS

The Town of Steilacoom's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

On December 31, 2022, the Town had \$63,840 on deposit in a demand account (checking) with Key Bank and \$343,342 on deposit in a demand account (checking) with Homestreet Bank.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Town would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Town's deposits are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The Town does not have a deposit policy for custodial credit risk. The bank balances that were exposed to custodial credit risks on December 31, 2022, were:

Homestreet Bank:	\$343,342
Key Bank:	\$ 63,840

The Town's investments throughout the year and on December 31, 2022, were made with the Washington State Local Government Investment Pool (LGIP), Time Value Investments, or Key Bank, with all investments being held in safekeeping by Key Bank's Trust department excluding funds held with the LGIP.

The Town participates in the Local Government Investment Pool, which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer.

The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

Investments or deposits held by the LGIP are all classified as Category 1 risk level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

Investments held as of December 31, 2022, and investment activity for the year was as follows:

Description/CUSIP	Balance 12-31-2021	Purchases	Sales/ Amortization	Balance 12-31-2022
Port of Seattle – 735389YT9	500,000		500,000	0
City of Tacoma – 87365A73	500,000		500,000	0
Seattle Sewer Revenue Bond – 812728TL7	578,094		578,094	0
Central Puget Sound Transit – 155048CL3	285,561		285,561	0
Skagit County School District – 830365GD8	464,476	2,882		467,358
Skagit County School District – 830365GC0	280,000		280,000	0

Description/CUSIP	Balance 12-31-2021	Purchases	Sales/ Amortization	Balance 12-31-2022
University of Washington – 9152NTZ9	1,001,792		1,001,792	0
Clark County School District – 181288PP0	492,028		10,981	481,047
Port of Everett – 734064HT8	323,396		9,598	313,798
Yakima County – 984521UE2	205,819		3,709	202,110
FNMA – 3135G05V1	2,000,000			2,000,000
FHLB – 3130AK6F8	400,000			400,000
FHLB – 3130AKKP0	2,000,000			2,000,000
FFCB – 3133EMKH4	1,000,000		1,000,000	0
FFCB – 3133EMLV2	525,000			525,000
FFCB – 3133EMMN9	1,000,000			1,000,000
FFCB – 3133EMQM7	1,000,000			1,000,000
FFCB – 3130AMU34	650,000			650,000
US Treasury – 9128CCT6	500,000			500,000
FHLB – 3130AP4G7	750,000			750,000
FHLB - 3130APRF4	600,000			600,000
FHLB – 3130APTL9		375,000		375,000
FHLB – 3130ARFJ5		1,000,000		1,000,000
Port of Seattle 73589YV4		1,100,000		1,100,000
Blendon TWP – BANS 093528BA4		650,000		650,000
FAMCA – 313422XR87		780,000		780,000
FHLMC – 3134GY6R8		1,000,000		1,000,000
LGIP (Net)	9,010,988	3,325,300		12,336,288
Total	\$24,067,154	\$8,233,182	\$4,169,735	\$28,130,601

Investments are subject to interest rate risk. This is the risk that the Town may face should interest rate variances affect the fair value of investments. The Town does not have a formal written policy addressing interest rate risk; however, it is the practice of the Town to hold all investments until they mature or are called thus mitigating this risk. Consequently, short-term market fluctuations are not recognized in the statements.

Additionally, investments are subject to credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's investment policy addresses credit risk by limiting what investments the Town invests in.

As of December 31, 2022, the Town's investments carried the following interest rates, investment rating, fair value using the valuation input hierarchy established by generally accepted accounting principles. All Town investments are valued via Level 1 – quoted prices in active markets for identical assets or liabilities.

Description/CUSIP	Balance 12-31-22	Interest Rate	Rating	Maturity Date	Fair Value 12-31-22
Skagit County School District – 830365GD8	467,358	1.164%	Aaa	12/1/2023	456,093
Clark County School District – 181288PP0	481,047	3.000%	Aaa(Aa2 underlying)	12/1/2024	462,659
Port of Everett – 734064HT8	313,798	4.000%	A2	12/1/2023	307,812
Yakima County – 984521UE2	202,110	2.637%	A+	12/1/2024	186,757
FNMA – 3135G05V1	2,000,000	.360%		8/18/2023	1,945,720
FHLB – 3130AK6F8	400,000	.230%		9/21/2023	386,272
FHLB – 3130AKKP0	2,000,000	.190%		12/22/2023	1,907,000
FFCB – 3133EMLV2	525,000	.27%		4/5/2024	494,561
FFCB – 3133EMMN9	1,000,000	.19%		1/11/2024	952,610
FFCB – 3133EMQM7	1,000,000	.20%		2/16/2024	947,590
FFCB – 3130AMU34	650,000	.33%		6/24/2024	607,561
US Treasury – 9128CCT6	500,000	.375%		8/15/2024	467,285
FHLB – 3130AP4G7	750,000	.50%		10/4/2024	695,565
FHLB – 3130APRF4	600,000	1.00%		11/15/2024	561,090
FHLB – 3130APTL9	375,000	.70%		6/24/2024	352,785
FHLB – 3130ARFJ5	1,000,000	2.375%		4/1/2025	950,220
Port of Seattle	1,100,000	2.836%	A+/A1/AA-	5/1/2024	1,073,875
Blendon TWP – BANS 093528BA4	650,000	5%	AAA	11/16/2023	657,274
FAMCA – 313422XR87	780,000	5.08%		12/5/2024	779,665
FHLMC – 3134GYR8	1,000,000	5.15%		9/23/2024	1,002,140
LGIP (Net)	12,336,288	Variable			12,336,288
Total	\$28,130,601				\$27,530,822

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's policy is that all investments are held in/by the Key Bank Trust Department. \$15,794,313 (fair value of \$15,194,534) was held in trust as of December 31, 2021. Given the nature of the Town's investments, Town management does not believe the Town has any significant custodial credit risk.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Town does not participate in any foreign currency denominated investments and Town management does not believe that the Town has any foreign currency risk.

On all called investments, the Town has always recovered the full amount invested plus interest.

Cash and investments reconcile to the Statement of Net Position as follows:

	Cash	Investments
Current Assets	\$407,732	\$28,130,601
Total:	\$407,732	\$28,130,601

	Cash	Investments
Homestreet Bank	\$343,342	
Key Bank	63,840	
Cash on Hand	550	
LGIP		\$12,336,288
Key Bank Safekeeping		15,794,313
Total:	\$407,732	\$28,130,601

NOTE V - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1.

Taxes are due in two equal installments on April 30 and October 31. The County Treasurer remits collections monthly to the Town. The County Treasurer remits to the Town interest earned on its tax collections for the periods they were held by the County.

Property taxes are recorded as a receivable when levied and are offset by deferred revenue. During the year, property tax revenue is recognized when cash is received. No allowance for uncollectible taxes is established since delinquent taxes are considered fully collectible.

The Town is permitted to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. This may be reduced for any of the following reasons:

- a) The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation of \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.
- b) Washington State Law in RCW 84.55.010 limits the growth of regular property taxes to 1 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 1 percent due to reevaluation, the levy rate will be decreased.
- c) The Town may voluntarily levy taxes below the legal limit.

For 2022, the Town's regular tax levy was approximately \$1.65 per \$1,000 for a regular levy of \$2,109,650 and a special EMS levy of approximately \$.50 per \$1,000 for a special levy of \$641,118.

The regular levy taxable value base as of December 31, 2022, for levies in 2023 was \$1,561,970,800.

NOTE VI – CAPITAL ASSETS

A. General Policies

Major expenditures for fixed assets, including leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewal are accounted for as expenditures or expenses when incurred.

All capital assets are valued at historical cost or estimated cost where historical cost is not known or acquisition value for donated assets or the lower of cost or fair market value when transferred between governmental and business-type activities.

The Town may have acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Town has sufficient legal interest to accomplish the purpose for which the assets were acquired, and has included such assets within the applicable fund.

B. Governmental Capital Assets

Governmental capital assets are assets with a life expectancy greater than 2 years and with a historical cost or estimated cost in excess of \$5,000 and which benefit the Town as a whole. When purchased, leased, or constructed, such assets are recorded as expenditures in the governmental funds and accounted for in the general fixed assets account group. The general fixed assets account group however is not reported in the individual fund financial statements. These assets appear in the government wide Statement of Net Position.

Governmental capital assets that are infrastructure assets (such as roads, bridges, curbs, and sidewalks) are considered public property and are capitalized.

Changes in the Governmental Capital Asset Account for 2022 were:

CATEGORY	BALANCE 12-31-21	2022 ADDITIONS	2022 DELETIONS	BALANCE 12-31-22	ACCUM. DEPREC.	NET VALUE 12-31-22
Land	\$ 5,554,766		\$	\$ 5,554,766		\$ 5,554,766
Buildings	5,994,933	\$ 728,897		6,723,830	\$ 5,588,173	1,135,657
Equipment						
Gen. Gov't	647,408	206,946	9,566	844,788	612,900	231,888
I/S Allocated	571,293	6,674		577,967	398,388	179,579
Infrastructure	26,752,646	1,328,776	487,832	27,593,590	15,935,291	11,658,299
Total	\$ 39,521,046	\$ 2,271,293	\$ 497,398	\$ 41,294,941	\$ 22,534,752	\$ 18,760,189

2022 Change in Accumulated Depreciation	12-31-2021	Increase	Decrease	12-31-2022
Buildings	\$ 5,438,616	\$ 149,557	\$	\$ 5,588,173
Equipment				
Gen. Gov't	576,440	46,026	9,566	612,900
I/S Allocated	380,329	18,059		398,388
Infrastructure	15,242,003	1,182,084	488,796	15,935,291
Total	\$ 21,637,388	\$ 1,395,726	\$ 498,362	\$ 22,534,752

Calendar year 2022 additions primarily are comprised of the acquisition and disposition of equipment, construction of street infrastructure, and installing energy conservation measures in various Town facilities.

C. Business-type Capital Assets

Capital assets of business-type operations (proprietary funds) are capitalized in their respective statement of net assets. Depreciation expense is charged to operations of proprietary funds to allocate the cost of capital assets over their useful lives, using the straight-line method with useful lives of four to fifty years. Changes in Business-type capital assets for 2022 were:

Internal Service Funds:

CATEGORY	BALANCE 12-31-21	2022 ADDITIONS	2022 DELETIONS	BALANCE 12-31-22
Equipment	\$ 2,483,881	\$ 54,944	\$25,926	\$ 2,512,899
Accumulated Depreciation	(1,653,605)	(104,441)	25,926	(1,732,120)
Net	\$ 830,276	\$ (49,497)	\$ 0	\$ 780,779

Internal Service Fund fixed assets are distributed between governmental and business-type activities for the government-wide statement of net assets.

Enterprise Operations:

Electric Utility:

CATEGORY	BALANCE 12-31-21	2022 ADDITIONS	2022 DELETIONS	BALANCE 12-31-22
Capital Assets	\$ 7,782,592	\$ 118,787		\$ 7,901,379
Accumulated Depreciation	(4,962,890)	(288,157)		(5,251,047)
Net	\$ 2,819,702	(\$169,370)		\$ 2,650,332

Sewer Utility:

CATEGORY	BALANCE 12-31-21	2022 ADDITIONS	2022 DELETIONS	BALANCE 12-31-22
Capital Assets	\$ 11,838,414	\$ 302,117		\$ 12,140,531
Accumulated Depreciation	(6,457,532)	(285,959)		(6,743,491)
Net	\$ 5,380,882	\$ 16,158		\$ 5,397,040

Water Utility:

CATEGORY	BALANCE 12-31-21	2022 ADDITIONS	2022 DELETIONS	BALANCE 12-31-22
Capital Assets	\$ 5,680,581			\$ 5,680,581
Accumulated Depreciation	(2,397,735)	(\$107,002)		(2,504,737)
Net	\$ 3,282,846	(\$107,002)		\$ 3,175,844

Storm Drain Utility:

CATEGORY	BALANCE 12-31-21	2020 ADDITIONS	2020 DELETIONS	BALANCE 12-31-22
Capital Assets	\$ 5,977,537			\$ 5,977,537
Accumulated Depreciation	(2,080,454)	(\$112,516)		(2,192,970)
Net	\$ 3,897,083	(\$112,516)		\$ 3,784,567

D. Construction and Other Significant Commitments

- A. Construction Commitments:
As of December 31, 2022, the Town had no significant construction Commitments. The Town has cash/investment reserves to fully cover its anticipated projects for 2023.
- B. Other Commitments:
As of December 31, 2022, the Town had no significant other contractual or legal commitments outside of the normal course of business.

NOTE VII - PENSION PLANS

The following table represents the aggregate pension amounts for all for the year 2022:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$401,479
Pension assets	\$1,439,670
Deferred outflows of resources	\$1,094,572
Deferred inflows of resources	\$1,134,557
Pension expense/expenditures	\$64,187

State Sponsored Pension Plans:

Substantially all Town of Steilacoom full-time and qualifying part-time employees participate in one of the following state-wide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

or the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service 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. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	10.25%	6.00%
September – December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	10.39%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the

member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.25%	6.36%
September – December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.39%	6.36%

* For employees participating in JBM, the contribution rate was 15.90%

The Town's actual PERS plan contributions were \$90,740 to PERS Plan 1 (including contributions for the UAAL) and \$137,752 to PERS Plan 2/3 for the year ended December 31, 2022.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or

employee contributions for fiscal year 2020. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2022.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – December 2022		
State and local governments	5.12%	8.53%
Administrative Fee	0.18%	
Total	5.30%	8.53%
Ports and Universities	8.53%	8.53%
Administrative Fee	0.18%	
Total	8.71%	8.53%

The Town of Steilacoom's actual contributions to the plan were \$62,615 for the year ended December 31, 2022.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council

and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2022, the state contributed \$81,388,085 to LEOFF Plan 2. The amount recognized by the Town as its proportionate share of this amount is \$745,410. The State's proportionate share of the net pension asset associated with the Town is \$482,860. The amount of the pension expense for the Town related to the State's contribution was \$36,784.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **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:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019, Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' 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 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by 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, 2022, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
PERS 1	\$536,369	\$401,478	\$283,750
PERS 2/3	\$735,019	(\$624,151)	(\$1,740,795)
LEOFF 1	(\$61,439)	(\$70,109)	(\$77,627)
LEOFF 2	(\$34,325)	(\$745,410)	(\$1,327,372)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities/Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2022, the Town reported a total Net Pension Asset of \$1,439,670 and a total Net Pension Liability of \$401,479 for its proportionate share of the net pension assets and liabilities as follows:

	Asset	Liability
PERS 1 - Liability		\$401,479
PERS 2/3 - Asset	\$624,151	
LEOFF 1 - Asset	70,109	
LEOFF 2	745,410	
TOTAL:	\$1,439,670	\$401,479

The amount of the asset reported previously for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the Town. The amount recognized by the Town as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the Town were as follows:

	Employer's Proportionate Share	State's Proportionate Share of the Net Pension Assets Associated with the Employer	Total
LEOFF 1	\$70,109	\$474,215	\$544,324
LEOFF 2	745,410	482,860	1,228,270
TOTAL:	\$815,519	\$957,075	\$1,772,594

As of June 30, the Town's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/22	Proportionate Share 6/30/21	Change in Proportion
PERS 1	.014419%	.014604%	(.000185%)
PERS 2/3	.016829%	.016918%	(.000089%)
LEOFF 1	.002444%	.002378%	.000066%
LEOFF 2	.027428%	.023331%	.004097%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2020. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2020, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2022, the state of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 61 percent of employer contributions.

Pension Expense

For the year ended December 31, 2022, the Town recognized pension expense as follows:

	Pension Expense
PERS 1	\$179,143
PERS 2/3	(221,190)
LEOFF 1	(4,786)
LEOFF 2	111,020
TOTAL	\$64,187

Deferred Outflows of Resources and Deferred Inflows of Resources

As of December 31, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		(\$66,537)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$45,885	
TOTAL	\$45,885	(\$66,537)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$154,650	(\$14,129)
Net difference between projected and actual investment earnings on pension plan investments		(461,439)
Changes of assumptions	347,878	(91,087)
Changes in proportion and differences between contributions and proportionate share of contributions	995	(46,174)
Contributions subsequent to the measurement date	68,821	
TOTAL	\$572,344	(\$612,829)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		(\$8,754)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL		(\$8,754)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$177,122	(\$6,916)
Net difference between projected and actual investment earnings on pension plan investments		(249,592)
Changes of assumptions	188,833	(64,905)
Changes in proportion and differences between contributions and proportionate share of contributions	77,435	(125,024)
Contributions subsequent to the measurement date	32,952	
TOTAL	\$476,342	(\$446,437)

TOTAL SUMMARY	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1	\$45,885	(\$66,537)
PERS 2/3	572,344	(612,829)
LEOFF 1		(8,754)
LEOFF 2	476,342	(446,437)
TOTAL	\$1,094,571	(\$1,134,557)

Deferred outflows of resources related to pensions resulting from the Town's 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 amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2023	(\$28,157)
2024	(25,574)
2025	(32,082)
2026	19,276
Total:	(\$66,537)

Year ended December 31:	PERS 2/3
2023	(\$157,361)
2024	(139,357)
2025	(161,887)
2026	205,070)
2027	72,016
Thereafter	72,213
Total:	(\$109,306)

Year ended December 31:	LEOFF 1
2023	(3,708)
2024	(3,357)
2025	(4,198)
2026	2,509
Total:	(\$8,754)

Year ended December 31:	LEOFF 2
2023	(\$83,306)
2024	(72,867)
2025	(95,347)
2026	102,743
2027	26,327
Thereafter	119,403
Total	(\$3,047)

NOTE VIII - RISK MANAGEMENT

The Town of Steilacoom is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 166 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

All Members are provided a separate cyber risk policy and premises pollution liability coverage group purchased by WCIA. The cyber risk policy provides coverage and separate limits for security & privacy, event management, and cyber extortion, with limits up to \$1 million and subject to member deductibles, sublimits, and a \$5 million pool aggregate. Premises pollution liability provides Members with a \$2 million incident

limit and \$10 million pool aggregate subject to a \$100,000 per incident Member deductible.

Insurance for property, automobile physical damage, fidelity, inland marine, and equipment breakdown coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits. In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day-to-day operations of WCIA.

Settlements did not exceed coverage for 2017, 2018, 2019, 2020, 2021 or 2022.

The Town received a claim for damages on November 16, 2022, regarding the drowning death of a thirteen (13) year-old boy enrolled in the Town summer camp program.

On July 15, 2022, the young man was on a Town of Steilacoom summer camp field trip to go swimming at Florence Lake on Anderson Island. The claim alleges that this individual was in a small group of other campers who were left unsupervised at the lake while the program attendant went back to the ferry dock to pick-up another group of campers. While the attendant was gone, the young man went into the lake and unfortunately drowned. The claim seeks \$65 million in damages.

The incident was promptly reported to the Washington Cities Insurance Authority (WCIA). External legal counsel was assigned.

It is uncertain at this time the impact this claim may have on the Town.

The Town of Steilacoom is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2022, 262 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2022, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris and Kaiser plans at an Individual Stop Loss (ISL) of \$1.5 million through United States Fire Insurance. The aggregate policy is for 200% of expected medical claims.

Participating employers' contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice

of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE IX - SHORT AND LONG-TERM DEBT

As of December 31, 2022, the Town had no external short or long-term debt and did not issue any short or long-term debt during 2022.

NOTE X - LONG-TERM LIABILITIES

Changes in the governmental long-term liabilities for 2022 were as follows:

	BEGINNING BALANCE	INCREASE	DECREASE	ENDING BALANCE	CURRENT PORTION
Compensated Absences	\$ 110,733	\$ 154,466	\$ 144,004	\$ 121,195	\$ 40,399
OPEB	475,904		475,904	0	
Net Pension Liability	107,901	124,957		232,858	
Total:	\$ 694,538	\$ 279,423	\$ 619,908	\$ 354,053	\$ 40,399

The "OPEB" liability amounts to the full accrual of the actuarial accrued liability for the LEOFF 1 medical benefit for the Town's one (1) LEOFF 1 retiree. This individual passed during 2022.

General Fund resources would be typically used to liquidate the long-term liabilities as they come due.

Changes in business-type activities long-term debt during 2022 were as follows:

	BEGINNING BALANCE	INCREASE	DECREASE	ENDING BALANCE	CURRENT PORTION
Compensated Absences	\$ 38,303	\$ 60,826	\$ 48,299	\$ 50,830	\$ 16,943
Net Pension Liability	70,448	98,173		168,621	
Total	\$ 108,751	\$ 158,999	\$ 48,299	\$ 219,451	\$ 16,943

The four business-type activities' funds' (electric, water, sewer, and storm) resources would typically be used to liquidate the long-term liabilities as they come due.

NOTE XI - CLAIMS AND JUDGMENTS

On December 31, 2022, the Town of Steilacoom had one material claim outstanding. See Note XII for further detail.

NOTE XII - CONTINGENCIES AND LITIGATION

The Town of Steilacoom has recorded in its financial statements all material liabilities, including any estimates for situations which are not yet resolved but where, based on available information, management believes it is probable that the Town will have to make payment.

The Town received a claim for damages on November 16, 2022, regarding the drowning death of a thirteen (13) year-old boy enrolled in the Town summer camp program.

On July 15, 2022, the young man was on a Town of Steilacoom summer camp field trip to go swimming at Florence Lake on Anderson Island. The claim alleges that this individual was in a small group of other campers who were left unsupervised at the lake while the program attendant went back to the ferry dock to pick-up another group of campers. While the attendant was gone, the young man went into the lake and unfortunately drowned. The claim seeks \$65 million in damages.

The incident was promptly reported to the Washington Cities Insurance Authority (WCIA). External legal counsel was assigned.

It is uncertain at this time the impact this claim may have on the Town.

There are no other commitments of the Town that have not otherwise been included in the Financial Statement Notes.

NOTE XIII - SEGMENT INFORMATION

The Town of Steilacoom operated four utilities during 2022. These utilities were Electric, Water, Sewer, and Storm.

Key financial data for the year ended December 31, 2022, is readily available in the financial statements due to each of these operations being treated as a major fund and is not repeated here.

NOTE XIV – TAX ABATEMENTS

The Town entered into a property tax abatement agreement with the following individual for the identified property that was still in effect as of December 31, 2022:

John and Beverly Gish
308 Main Street
Steilacoom, Washington 98388
Entered into September 2018.

Assessed Valuation of Improvements:	\$414,500
Taxable Valuation of Improvements:	244,182
Difference:	170,318
2022 Town-only Tax Levy Rate:	1.645290160557
Estimated Abatement: for 2022.	\$280

The agreements were entered into under the laws of the State of Washington (Chapter 254-20 WAC) and the provisions of the Steilacoom Municipal Code (SMC 2.14.070) allowing for special tax valuation for the rehabilitation of historic properties under which the assessed value of eligible historic properties is determined at a rate that excludes, for up to ten years, the actual cost of rehabilitation.

NOTE XV – LEASES

The Town does not currently have any operating or financing leases where it is the lessee.

The Town currently leases property to other entities as follows:

1. DSHS entered into a 5-year lease, SRL 20-0067, effective September 1, 2020, for a building used for the offices of the Special Commitment Center. The terms of the lease include rent of \$7,333.33 per month once the Town completes identified deferred maintenance items. Those items were completed in 2021. Estimated lease payments are:

Year	Payment
2023	\$88,000
2024	\$88,000
2025	\$58,667

2. DSHS – Leases approximately 160 parking spaces near the ferry terminal in Steilacoom, Washington 98388.

DSHS entered a five-year lease, SRL 20-0068, effective May 1, 2021. The terms of the lease include rent of \$10,500 per month. Payments on the lease are anticipated as:

Year	Payment
2023	\$126,000
2024	\$126,000
2025	\$126,000
2026	\$42,000

3. T-Mobile West – Ground lease for property near the Community Center and Public Safety buildings on which is located a cell tower owned by a third-party.

The lease initially commenced on July 1, 1999 and would have expired on June 30, 2019. An amendment was entered into that if all of the renewal options are exercised, will extend the lease through June 30, 2049.

The rent effective May 2022 was approximately \$3,984 per month with an annual increase based upon the CPI-U with a 3% minimum and a 5% maximum.

4. New Cingular Wireless PCS, LLC – Ground lease for property near the Community Center and Public Safety buildings on which is located a cell tower owned by a third-party.

The lease initially commenced on March 1, 2002. An amendment was entered into commencing on Jul 7, 2019, which has three five-year renewal options. If all of the renewal options are exercised, will extend the lease through July 6, 2039.

The rent through July 6, 2024, is \$1,318.20 per month. A 15% increase in the rent is built into the lease at the start of each of the three 5-year renewal.

The net present value of the lease payment streams rounded to the nearest dollar as of the date indicated follows.

	DSHS – Parking Lot Lease	DSHS – Building Lease	New Cingular – Ground Lease	Voicestream PCS – Ground Lease	Total
12/31/2022	389,665	228,800	268,198	1,344,273	2,230,936
12/31/2023	278,761	144,319	259,648	1,334,246	2,016,974
12/31/2024	162,820	58,262	249,667	1,320,639	1,791,388
12/31/2025	41,613		238,198	1,304,992	1,584,803
12/31/2026			226,409	1,287,194	1,513,603
12/31/2027			214,292	1,267,131	1,481,423
12/31/2028			201,838	1,244,681	1,446,519
12/31/2029			187,664	1,219,718	1,407,382
12/31/2030			171,705	1,192,112	1,363,817
12/31/2031			155,301	1,161,725	1,317,026
12/31/2032			138,441	1,128,414	1,266,855
12/31/2033			121,111	1,092,030	1,213,141
12/31/2034			101,720	1,052,419	1,154,139
12/31/2035			80,190	1,009,418	1,089,608

	DSHS – Parking Lot Lease	DSHS – Building Lease	New Cingular – Ground Lease	Voicestream PCS – Ground Lease	Total
12/31/2036			58,059	962,859	1,020,918
12/31/2037			35,313	912,565	947,878
12/31/2038			11,933	858,355	870,288
12/31/2039				800,037	800,037
12/31/2040				737,412	737,412
12/31/2041				670,274	670,274
12/31/2042				598,407	598,407
12/31/2043				521,586	521,586
12/31/2044				439,578	439,578
12/31/2045				352,139	352,139
12/31/2046				259,016	259,016
12/31/2047				159,946	159,946
12/31/2048				54,655	54,655
12/31/2049					0

The estimated amount of the lease payment streams allocated to rental and interest income rounded to the nearest dollar as of the date indicated follows:

	PAYMENT	RENTAL	INTEREST
12/31/2022	276,488	203,569	72,919
12/31/2023	280,055	213,962	66,093
12/31/2024	284,459	225,587	58,872
12/31/2025	199,249	148,323	50,926
12/31/2026	74,901	29,586	45,315
12/31/2027	76,602	32,180	44,422
12/31/2028	78,355	34,904	43,451
12/31/2029	81,524	39,136	42,388
12/31/2030	84,747	43,566	41,181
12/31/2031	86,662	46,791	38,871
12/31/2032	88,634	50,171	38,463
12/31/2033	90,666	53,714	36,952
12/31/2034	94,327	59,002	35,325
12/31/2035	98,051	64,531	33,520
12/31/2036	100,271	68,689	31,582
12/31/2037	102,558	73,040	29,518
12/31/2038	104,913	77,590	27,323
12/31/2039	83,280	58,318	24,962
12/31/2040	85,779	62,625	23,154
12/31/2041	88,352	67,138	21,214
12/31/2042	91,003	71,867	19,136
12/31/2043	93,733	76,821	16,912

	PAYMENT	RENTAL	INTEREST
12/31/2044	98,545	82,008	14,537
12/31/2045	99,441	87,439	12,002
12/31/2046	102,424	93,122	9,302
12/31/2047	105,497	99,070	6,427
12/31/2048	108,662	105,292	3,370
12/31/2049	55,134	54,655	479

NOTE XVI – GOING CONCERN

Management evaluated the Town’s operations and our intent is to continue with current operations for the foreseeable future but no less than the next twelve to twenty-four months. We do not believe that there are any foreseeable significant events that would alter this opinion that would require modification to the values presented in the financial statements for the period ended December 31, 2022, as of May 24, 2023, the date the unaudited financial statements were available to the public.

NOTE XVII – SUBSEQUENT EVENTS

Management evaluated subsequent events through May 24, 2023, the date the unaudited financial statements were available to the public, and other than the matters discussed in Note XII determined there were no other events that would have a material adverse impact on the Town’s financial statements requiring disclosure.

Town of Steilacom
Schedule of Employer Contributions
LEOFF 1
As of December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 0	0	0	0	0	0	0	0
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ 0	0	0	0	0	0	0	0
<u>Contribution deficiency (excess)</u>	\$ 0	0	0	0	0	0	0	0
<u>Covered payroll</u>	\$ 0	0	0	0	0	0	0	0
<u>Contributions as a percentage of covered payroll</u>	% 0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Town of Steilacom
Schedule of Employer Contributions
LEOFF 2
As of December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 62,615	51,330	46,509	55,280	52,530	45,632	42,777	39,073
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ 62,615	51,330	46,509	55,280	52,530	45,632	42,777	39,073
<u>Contribution deficiency (excess)</u>	\$ 0	0	0	0	0	0	0	0
<u>Covered payroll</u>	\$ 1,188,344	993,115	892,770	1,029,103	947,995	886,099	847,074	747,093
<u>Contributions as a percentage of covered payroll</u>	% 5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%

Town of Steilacom
Schedule of Employer Contributions
PERS 1
As of December 31, 2022

	2022	2021	2020	2019	2018	2017	2016	2015
<u>Statutorily or contractually required contributions</u>	\$ 90,740	95,164	109,420	110,934	112,872	104,114	99,289	91,622
Contributions in relation to the statutorily or contractually required contributions	\$ 90,740	95,164	109,420	110,934	112,872	104,114	99,289	91,622
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0	0
<u>Covered payroll</u>	\$ 2,258,120	2,084,747	2,141,956	2,115,337	2,111,442	2,016,419	1,983,832	1,986,412
<u>Contributions as a percentage of covered payroll</u>	% 12.65%	12.65%	12.65%	12.65%	11.00% (*) 12.65%	11.00%	11.00%	9.03% 11.00%

(*) 2018 - January - August = 11%; September - December = 12.65%

(**) 2015 - January - June = 9.03%; July - December = 11%

Town of Steilacom
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2022

	2022	2021	2020	2019	2018	2017	2016	2015
<u>Statutorily or contractually required contributions</u>	\$ 137,752	142,298	162,975	156,976	152,387	132,976	118,932	107,726
Contributions in relation to the statutorily or contractually required contributions	\$ 137,752	142,298	162,975	156,976	152,387	132,976	118,932	107,726
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0	0
<u>Covered payroll</u>	\$ 2,165,191	1,999,508	2,057,771	2,033,023	2,031,852	1,939,983	1,909,019	1,910,442
<u>Contributions as a percentage of covered payroll</u>	% 12.65%	12.65%	12.65%	12.65%	11.00% (*) 12.65%	11.00%	11.00%	9.03% 11.00%

(*) 2018 - January - August = 11%; September - December = 12.65%

(**) 2015 - January - June = 9.03%; July - December = 11%

Town of Steilacoom
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30, 2022

		<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's proportion of the net pension asset</u>	%	0.002444%	0.002378%	0.002321%	0.009428%	0.011148%	0.011205%	0.011168%	0.011058%
Employer's proportionate share of the net pension asset	\$	70,109	81,460	43,832	186,355	202,392	170,005	115,062	133,273
TOTAL	\$	<u>70,109</u>	<u>81,460</u>	<u>43,832</u>	<u>186,355</u>	<u>202,392</u>	<u>170,005</u>	<u>115,062</u>	<u>133,273</u>
<u>Employer's covered employee payroll</u>	\$	0	0	0	0	0	0	0	0
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	%	169.62%	187.45%	146.88%	148.78%	144.42%	135.96%	123.74%	127.36%

Town of Steilacoom
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30, 2022

		<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's proportion of the net pension asset</u>	%	0.027428%	0.023331%	0.026420%	0.027783%	0.029152%	0.027806%	0.026219%	0.025874%
Employer's proportionate share of the net pension asset	\$	745,410	1,355,161	538,929	643,647	591,849	385,857	152,498	265,933
State's proportionate share of the net pension asset associated with the employer	\$	482,860	874,227	344,605	421,502	383,211	250,298	99,417	175,831
TOTAL	\$	<u>1,228,270</u>	<u>2,229,388</u>	<u>883,534</u>	<u>1,065,149</u>	<u>975,060</u>	<u>636,155</u>	<u>251,915</u>	<u>441,764</u>
<u>Employer's covered employee payroll</u>	\$	1,112,640	903,505	963,849	922,615	936,991	868,016	805,418	749,576
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	66.99%	149.99%	55.91%	69.76%	63.16%	44.45%	18.93%	35.48%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	%	116.09%	142.00%	115.83%	119.43%	118.50%	113.36%	106.04%	111.67%

Town of Steilacoom
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2022

		2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	%	0.014419%	0.014604%	0.014846%	0.015909%	0.016293%	0.016712%	0.0173180%	0.017709%
Employer's proportionate share of the net pension liability	\$	401,478	178,349	524,151	611,758	727,651	792,997	930,058	926,345
TOTAL	\$	401,478	178,349	524,151	611,758	727,651	792,997	930,058	926,345
Employer's covered employee payroll	\$	2,201,915	2,095,552	2,122,239	2,110,724	2,056,848	2,014,446	1,987,222	1,941,577
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	18.23%	8.51%	24.70%	28.98%	35.38%	39.37%	46.80%	47.71%
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%

Town of Steilacoom
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2022

		2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.016829%	0.016918%	0.017366%	0.018719%	0.018942%	0.019719%	0.020323%	0.020939%
Employer's proportionate share of the net pension liability	\$	(624,151)	(1,685,305)	222,101	181,825	323,418	685,141	1,023,247	748,162
TOTAL	\$	<u>(624,151)</u>	<u>(1,685,305)</u>	<u>222,101</u>	<u>181,825</u>	<u>323,418</u>	<u>685,141</u>	<u>1,023,247</u>	<u>748,162</u>
Employer's covered employee payroll	\$	2,112,770	2,010,779	2,040,002	2,030,102	1,978,041	1,938,569	1,912,180	1,865,680
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	-29.54%	-83.81%	10.89%	8.96%	16.35%	35.34%	53.51%	40.10%
Plan fiduciary net position as a percentage of the total pension liability	%	106.73%	120.29%	97.22%	97.77%	96.77%	90.97%	85.82%	89.20%

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.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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