

**CITY OF SEATTLE VOLUNTARY DEFERRED
COMPENSATION PLAN**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021



CPAs | CONSULTANTS | WEALTH ADVISORS

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**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
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YEARS ENDED DECEMBER 31, 2022 AND 2021**

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INDEPENDENT AUDITORS' REPORT

Voluntary Deferred Compensation Plan Committee
City of Seattle Voluntary Deferred Compensation Plan
Seattle, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Seattle Voluntary Deferred Compensation Plan (the Plan), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2022 and 2021, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Plan'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.

Auditors' 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 auditors' report that includes our opinion. 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 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.

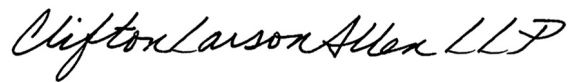
In performing an audit in accordance with GAAS, we:

- 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 Plan'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 Plan's ability to continue as a going concern for a reasonable period of time.

We are required to 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 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 GAAS, 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 audits 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.



CliftonLarsonAllen LLP

Baltimore, Maryland
September 22, 2023

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021**

The following is an analysis and overview of the financial activities of the City of Seattle Voluntary Deferred Compensation Plan as of and for the years ended December 31, 2022 and 2021. Please refer to the basic financial statements and accompanying notes to the financial statements for further information. To the best of our actual knowledge and belief, the financial statements, as presented, are accurate in all material respects.

Overview of the Financial Statements

The financial statements report information on Plan assets and activities for the years presented. Financial information on the Plan's assets are presented in the statements of fiduciary net position and the additions and deductions of the Plan are accounted for in the statements of changes in fiduciary net position. The following are condensed statements of fiduciary net position and changes in fiduciary net position as of and for the years ended December 31, 2022, 2021, and 2020:

CONDENSED STATEMENTS OF FIDUCIARY NET POSITION

| | As of December 31, | | |
|--|-------------------------|-------------------------|-------------------------|
| | 2022 | 2021 | 2020 |
| ASSETS | | | |
| Total Investments, at Fair Value | \$ 1,467,196,701 | \$ 1,825,585,179 | \$ 1,616,976,458 |
| Notes Receivable from Participants | 16,574,757 | 17,142,045 | 17,092,089 |
| Total Assets | <u>1,483,771,458</u> | <u>1,842,727,224</u> | <u>1,634,068,547</u> |
| FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS | <u>\$ 1,483,771,458</u> | <u>\$ 1,842,727,224</u> | <u>\$ 1,634,068,547</u> |

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021**

CONDENSED STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

| | Years Ended December 31, | | |
|--|--------------------------|-------------------------|-------------------------|
| | 2022 | 2021 | 2020 |
| ADDITIONS TO FIDUCIARY NET POSITION | | | |
| Contributions | | | |
| Employer | \$ 8,295,096 | \$ 8,740,052 | \$ 9,135,690 |
| Employee | 67,014,816 | 66,037,821 | 64,217,651 |
| Rollovers and Transfers | 6,992,104 | 5,653,870 | 6,395,764 |
| Total Contributions | <u>82,302,016</u> | <u>80,431,743</u> | <u>79,749,105</u> |
| Net Investment Income (Loss) | <u>(341,024,327)</u> | <u>234,495,193</u> | <u>229,966,564</u> |
| Total Additions to Fiduciary Net Position | (258,722,311) | 314,926,936 | 309,715,669 |
| DEDUCTIONS FROM FIDUCIARY NET POSITION | | | |
| Benefits Paid to Participants, Rollovers and Transfers | 98,392,954 | 103,856,776 | 80,817,287 |
| Loan, Redemption, and Other Fees | <u>1,840,501</u> | <u>2,411,483</u> | <u>2,267,142</u> |
| Total Deductions from Fiduciary Net Position | <u>100,233,455</u> | <u>106,268,259</u> | <u>83,084,429</u> |
| CHANGE IN FIDUCIARY NET POSITION | (358,955,766) | 208,658,677 | 226,631,240 |
| Fiduciary Net Position Available for Benefits - Beginning of Year | <u>1,842,727,224</u> | <u>1,634,068,547</u> | <u>1,407,437,307</u> |
| FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS - END OF YEAR | <u>\$ 1,483,771,458</u> | <u>\$ 1,842,727,224</u> | <u>\$ 1,634,068,547</u> |

Financial Analysis of the Plan

In accordance with guidance from the Government Accounting Standards Board, because the Plan presents comparative financial statements, this management's discussion, and analysis (MD&A) is required to address both years presented in the comparative financial statements. Therefore, the Plan's MD&A presents three years of comparative data—the current year, the prior year, and the year preceding the prior year (i.e., 2022, 2021, and 2020).

As of December 31, 2022, the Plan's fiduciary net position available for benefits totaled \$1,483,771,458. This represents a decrease of \$358,955,766, or 19%, in fiduciary net position available for benefits from December 31, 2021. All of these funds are held for the benefit of employees participating in the Plan. The decrease in 2022 was primarily due to unfavorable market conditions during the year.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021**

Financial Analysis of the Plan (Continued)

As of December 31, 2021, the Plan's fiduciary net position available for benefits totaled \$1,842,727,224. This represents an increase of \$208,658,677, or 13%, in fiduciary net position available for benefits from December 31, 2020. All these funds are held for the benefit of employees participating in the Plan. The increase in 2021 was primarily due to additional contributions made via one-time retroactive wage adjustments, new enrollees to the Plan, and favorable market conditions during the year.

Employee contributions in 2022 of \$67,014,816 were \$976,995 higher than in 2021. Benefits paid to participants and withdrawals were \$98,392,954 in 2022, reflecting a decrease of \$5,463,822 from benefits paid during 2021. Benefits paid to participants decreased in 2022 primarily due to the amount of distributions to which participants were entitled, resulting in a decrease in distributions from the Plan to the participants.

Employee contributions in 2021 of \$66,037,821 were \$1,820,170 higher than in 2020. Benefits paid to participants and withdrawals were \$103,856,776 in 2021, reflecting an increase of \$23,039,489 from benefits paid during 2020. Benefits paid to participants increased in 2021 primarily due to the amount of distributions to which participants were entitled, resulting in an increase in distributions from the Plan to the participants.

Net investment loss in 2022 was \$341,024,327, a decrease in earnings of \$575,519,520 from 2021. Market conditions throughout the year contributed to the decreased income experienced in 2022. Net investment income in 2021 was \$234,495,193, an increase in earnings of \$4,528,629 from 2020. Market conditions throughout the year contributed to the increase experienced in 2021.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Seattle Department of Human Resources, Deferred Compensation Unit, 700 5th Ave, SMT 55-01, Seattle, WA 98104.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
STATEMENTS OF FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS
DECEMBER 31, 2022 AND 2021**

| | 2022 | 2021 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Investments, at Fair Value | | |
| Mutual Funds | \$ 1,303,949,873 | \$ 1,660,954,349 |
| Stable Value Fund | 124,637,668 | 121,978,925 |
| Money Market Fund | 27,229,613 | 28,388,246 |
| Certificates of Deposit | 293,849 | 305,305 |
| Self Directed Brokerage Accounts | 11,085,698 | 13,958,354 |
| Total Investments, at Fair Value | 1,467,196,701 | 1,825,585,179 |
| Receivables | | |
| Notes Receivable from Participants | 16,574,757 | 17,142,045 |
| Total Assets | 1,483,771,458 | 1,842,727,224 |
| FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS | \$ 1,483,771,458 | \$ 1,842,727,224 |

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2022 AND 2021**

| | 2022 | 2021 |
|--|------------------|------------------|
| ADDITIONS TO FIDUCIARY NET POSITION | | |
| Contributions | | |
| Employer | \$ 8,295,096 | \$ 8,740,052 |
| Employee | 67,014,816 | 66,037,821 |
| Rollovers and Transfers | 6,992,104 | 5,653,870 |
| Total Contributions | 82,302,016 | 80,431,743 |
| Investment Income (Loss) | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | (352,806,796) | 224,647,911 |
| Interest | 1,923,668 | 1,715,353 |
| Dividends | 9,664,148 | 7,592,566 |
| Other Income | 194,653 | 539,363 |
| Total Investment Income (Loss) | (341,024,327) | 234,495,193 |
| Total Additions to Fiduciary Net Position | (258,722,311) | 314,926,936 |
| DEDUCTIONS FROM FIDUCIARY NET POSITION | | |
| Benefits Paid to Participants, Rollovers and Transfers | 98,392,954 | 103,856,776 |
| Loan, Redemption, and Other Fees | 1,840,501 | 2,411,483 |
| Total Deductions from Fiduciary Net Position | 100,233,455 | 106,268,259 |
| CHANGE IN FIDUCIARY NET POSITION | (358,955,766) | 208,658,677 |
| Fiduciary Net Position Available for Benefits - Beginning of Year | 1,842,727,224 | 1,634,068,547 |
| FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS - END OF YEAR | \$ 1,483,771,458 | \$ 1,842,727,224 |

See accompanying Notes to Financial Statements.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 DESCRIPTION OF THE PLAN

The following descriptions of the City of Seattle Voluntary Deferred Compensation Plan (the Trust or the Plan) is provided for general information purposes only. More complete information regarding the Trust's provisions may be found in the Trust documents.

General

The City of Seattle Voluntary Deferred Compensation Plan (the City or Plan Sponsor) in the state of Washington established the Plan as a defined contribution retirement plan. The Trust was created to manage the assets of the deferred compensation benefits of participating employees, former employees, beneficiaries, and alternate payees of the city. The Trust is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

The Plan has a salary reduction arrangement pursuant to Internal Revenue Code (IRC) Section 457. This provision allows participants to make voluntary pre-tax and post-tax contributions to the Trust. Pre-tax contributions are taxable to the participant at the time of distribution from the Trust; the taxability at distribution of post-tax contributions depends on whether certain qualifying rules have been met.

The City is the Plan's Sponsor and serves as Plan administrator, which is responsible for establishing the Plan benefits, contributions, and other provisions, and for approving all Plan amendments. As of December 31, 2022, there were 10,873 Plan participants consisting of 6,260 active participants and 3,783 inactive or separated participants. As of December 31, 2021, there were 10,715 Plan participants consisting of 6,527 active participants and 3,467 inactive or separated participants.

Eligibility

All active City officers and employees are immediately eligible upon the date of employment including regular (40 hours per week), part-time (average of 20 or more but less than 40 hours per week), and temporary (non-regular) employees. The Plan also allows employee catch-up contributions for certain participants.

Contributions

Each year, participants may contribute up to 100% of pre-tax annual compensation, as defined in the Plan, subject to annual dollar amount limitations prescribed by the IRC. Contributions are made in specific dollar increments, with a minimum of \$10 per paycheck. Participants may also elect to make Roth contributions utilizing post-tax contributions. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 DESCRIPTION OF THE PLAN (CONTINUED)

Contributions (Continued)

The City's contributions apply only to members of the Seattle Police Officers Guild (SPOG), Seattle Police Management Association (SPMA), International Association of Fire Fighters (Local 27) and the Seattle Fire Chiefs Association (Local 2898).

- For SPOG, the annual contribution is 100% of the employee deferral contribution up to a maximum of 4% of the annual top step base salary for Police Officers (\$109,512 in 2022 and 2021). The maximum annual City match amounts per SPOG member in 2022 and 2021 were \$4,380. The SPOG collective bargaining agreement (CBA) was signed in late 2018 and implemented in 2019.
- The SPMA CBA was signed and implemented in 2022. The maximum annual match is 3% of the top step base salary of a Police Lieutenant (\$170,040 in 2022 and \$156,252 in 2021) for each SPMA member. In 2022 and 2021, deferrals were matched up to \$5,101 and \$3,125, respectively.
- For Local 27, the contribution is 4% of the annual top step base salary for Fire Fighters regardless of whether or not the employee makes voluntary contributions. The annual top step base salary for 2022 and 2021 was \$98,436. The maximum annual City guaranteed amounts per Local 27 member for 2022 and 2021 were \$3,937. The CBA effective in 2020 increased the contribution maximum to 4% of the top step base salary and locks the rate to match any change made by future SPOG contracts.
- For Local 2898, the contribution is 2.6% of the annual top step base salary for Battalion Chiefs regardless of whether or not the employee makes voluntary contributions. In 2022, the CBA between Local 2898 and the city was finalized. The annual top step base salary was \$162,780 in 2022 and 2021. The maximum annual City guaranteed amount per Local 2898 member for 2022 and 2021 were \$4,232

Participant Accounts

Each participant's account is credited with the participant's contribution and if applicable, an allocation of the City's contribution (SPOG, SPMA, Local 27, and Local 2898 only). Participant accounts are charged with an allocation of administrative expenses that are paid by the Plan. Allocations are based on participant earnings, account balances, or specific participant transactions, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Participants direct the investment of their contributions into various investment options offered by the Plan.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 DESCRIPTION OF THE PLAN (CONTINUED)

The Trust's Administration and Trustee

The Plan is administered by the Voluntary Deferred Compensation Plan Committee (the Committee), which consists of seven members. The members are the Treasury Services Director of the Department of Finance and Administrative Services, Executive Director of the Seattle City Employees Retirement System, the Director of the Seattle Department of Human Resources, the City Finance Director, an at-large member elected by other representatives of City management, and two union representatives chosen by the Coalition of City Unions.

The Committee, on behalf of the City, may at any time amend or modify the Plan provided amendments facilitate the administration of the Plan, are in the best interest of the participants and beneficiaries of the Plan, or are necessary to maintain the tax qualified status of the Plan. A minimum of four Committee members needs to be present before new resolutions are adopted by the Trust. The City may also amend, modify, or terminate the Plan.

For the years ended December 31, 2022 and 2021, the Plan's investments were held under a trust agreement with Nationwide. Nationwide also provides participant recordkeeping services.

Benefits Paid to Participants

On termination of service, attainment of age 59.5, death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or in periodic payments as permitted by the Code.

Unforeseeable Emergency

Under certain conditions, participants, while still employed by the City, are permitted to withdraw, in a single sum, from their invested account balance. These conditions include (1) an illness or accident of the participant, the participant's beneficiary, or the participant's or beneficiary's spouse, or dependent, (2) loss of the participant's or beneficiary's property due to casualty, (3) the need to pay for the funeral expenses of the participant's or beneficiary's spouse or dependent, or (4) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the participant's or beneficiary's control. The payment may not exceed the lesser of the current value of the participant's account or the amount required to satisfy the participant's emergency need, along with an amount to cover anticipated taxes. A participant's right to make deferrals to the Plan may be suspended for six months after the receipt of an unforeseeable emergency withdrawal.

Vesting

Participants are fully vested in employee and City contributions at all times.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 DESCRIPTION OF THE PLAN (CONTINUED)

Trust Termination

Although the City has not expressed any intent to do so, it maintains the right to reduce, suspend, or completely discontinue contributions to the Trust in compliance with applicable bargaining unit agreements.

Investment Policy

The Committee has established an investment policy that the trustee, Nationwide, must follow. The Committee selects an array of investment options and funds within those options that provide choices for participants who have various levels of investment sophistication and varying requirements for risk and return. In addition, the Committee has also chosen to provide a self-directed brokerage option.

Administration Expenses

Participant account balances were charged 0.09% annually to cover all administrative expenses. During the years ended December 31, 2022 and 2021, revenue sharing proceeds totaled \$1,243,778 and \$1,254,897, respectively. The Plan paid investment and administrative expenses, including professional services provided by the trustee of \$691,296 and \$637,630 from the expense account in 2022 and 2021, respectively. As of December 31, 2022 and 2021, the expense account totaled \$2,697,680 and \$2,086,850 respectively. Participant accounts are assessed a separate fee for the administration of individual loans and repayments thereof.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, using the accrual method of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that may affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation and Income Recognition (Continued)

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Net appreciation in fair value of investments consists of both the realized gains and losses and unrealized appreciation and depreciation of those investments.

Benefit Payments and Withdrawals

Benefit payments and withdrawals are recorded when due and payable in accordance with benefit terms.

NOTE 3 FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The following are descriptions of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Mutual funds – Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Stable value fund – The stable value fund is comprised primarily of fully benefit-responsive investment contracts and is valued at contract value, which approximates fair value.

Money market fund – Shares invested in the money market fund are valued at cost plus accrued interest, or amortized cost, which approximates fair value.

Certificates of deposit – Certificates of deposit are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Self-directed brokerage accounts – Accounts primarily consist of mutual funds that are valued on the basis of readily determinable market prices.

The following table discloses the fair value hierarchy of the Plan’s assets by level as of December 31, 2022:

| | Fair Value Measurements at December 31, 2022 | | | |
|---|--|-------------------|-------------|-------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual Funds | \$ 1,303,949,873 | \$ - | \$ - | \$ 1,303,949,873 |
| Self Directed Brokerage Accounts | 11,085,698 | - | - | 11,085,698 |
| Certificates of Deposit | - | 293,849 | - | 293,849 |
| | <u>1,315,035,571</u> | <u>293,849</u> | <u>-</u> | <u>1,315,329,420</u> |
| Total Assets in the Fair Value Hierarchy | <u>\$ 1,315,035,571</u> | <u>\$ 293,849</u> | <u>\$ -</u> | 1,315,329,420 |
| Investments Measured at Contract Value | | | | 124,637,668 |
| Investments Measured at Amortized Cost | | | | <u>27,229,613</u> |
| Investments at Fair Value | | | | <u>\$ 1,467,196,701</u> |

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table discloses the fair value hierarchy of the Plan's assets by level as of December 31, 2021:

| | Fair Value Measurements at December 31, 2021 | | | |
|--|--|-------------------|-------------|-------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual Funds | \$ 1,660,954,349 | \$ - | \$ - | \$ 1,660,954,349 |
| Self Directed Brokerage | | | | |
| Accounts | 13,958,354 | - | - | 13,958,354 |
| Certificates of Deposit | - | 305,305 | - | 305,305 |
| <hr/> | | | | |
| Total Assets in the Fair Value Hierarchy | <u>\$ 1,674,912,703</u> | <u>\$ 305,305</u> | <u>\$ -</u> | 1,675,218,008 |
| Investments Measured at Contract Value | | | | 121,978,925 |
| Investments Measured at Amortized Cost | | | | <u>28,388,246</u> |
| Investments at Fair Value | | | | <u>\$ 1,825,585,179</u> |

NOTE 4 INVESTMENTS

Investment securities are exposed to various risks that can affect the value of the Plan's investments such as custodial credit risk, interest rate risk, credit risk, concentration risk, and foreign currency risk. The Plan invests in mutual funds, a money market fund, self-directed brokerage accounts, certificates of deposit, and a collective trust. Investments that have underlying holdings in equity securities, which respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while underlying holdings in debt securities are particularly sensitive to credit risk and change in interest rates.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure by the counterparty, the Plan will not be able to recover the value of its investments that are in the possession of an outside party. The Plan's policies do not specifically address custodial credit risk, but all of the Plan's investments are insured or registered or held by the Plan or its agent in the Plan's name.

Interest Rate Risk and Credit Risk

Interest rate risk arises from the likelihood that interest rates will rise or fall during the holding period of a fixed rate security and adversely affect the selling price of the security prior to maturity. The price of a debt security typically moves in the opposite direction of the change in interest rates. Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its payments on a security under the original term. The Plan's policies do not specifically address interest rate risk and credit risk.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 INVESTMENTS (CONTINUED)

At December 31, 2022, the Plan had the following investments with fixed income components that are subject to interest rate risk and credit risk:

| Investment | Fair Value | Effective Duration (in Years) | Average Credit Rating |
|---|-----------------------|-------------------------------------|-----------------------------|
| <u>Fixed Income</u> | | | |
| Mutual Funds | | | |
| PIMCO Total Return Institutional | \$ 40,859,493 | 5.61 | Not rated |
| Vanguard Target Retirement 2020 | 49,686,848 | 6.08 | A |
| Vanguard Target Retirement 2025 | 109,388,685 | 6.45 | A |
| Vanguard Target Retirement 2030 | 59,265,079 | 6.84 | A |
| Vanguard Target Retirement 2035 | 85,021,719 | 6.84 | A |
| Vanguard Target Retirement 2040 | 42,596,475 | 6.84 | A |
| Vanguard Target Retirement 2045 | 57,765,545 | 6.83 | A |
| Vanguard Target Retirement 2050 | 27,387,981 | 6.82 | A |
| Vanguard Target Retirement 2055 | 19,659,213 | 6.82 | A |
| Vanguard Target Retirement 2060 | 7,801,326 | 6.82 | A |
| Vanguard Target Retirement 2065 | 754,058 | 6.83 | A |
| Vanguard Target Retirement 2070 | 15,211 | 6.84 | A |
| Retirement Income | 53,885,189 | | |
| Vanguard Total Bond Index | 25,151,823 | 6.6 | AA |
| Legg Mason BW Global Opportunities Bond Fund I | 6,404,923 | 7.93 | A |
| Certificates of Deposit | 293,849 | N/A | N/A |
| Total | <u>\$ 585,937,415</u> | | |

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 INVESTMENTS (CONTINUED)

At December 31, 2021, the Plan had following investments with fixed income components that are subject to interest rate risk and credit risk:

| Investment | Fair Value | Effective Duration (in Years) | Average Credit Rating |
|---|-----------------------|-------------------------------------|-----------------------------|
| <u>Fixed Income</u> | | | |
| Mutual Funds | | | |
| PIMCO Total Return Institutional | \$ 51,811,647 | 5.9 | Not Rated |
| Vanguard Target Retirement 2015 | 45,962,523 | 6.3 | AA |
| Vanguard Target Retirement 2020 | 64,600,198 | 6.3 | A |
| Vanguard Target Retirement 2025 | 138,212,940 | 6.8 | A |
| Vanguard Target Retirement 2030 | 68,655,067 | 7.1 | A |
| Vanguard Target Retirement 2035 | 99,135,217 | 7.4 | A |
| Vanguard Target Retirement 2040 | 46,686,016 | 7.1 | A |
| Vanguard Target Retirement 2045 | 63,665,559 | 7.1 | A |
| Vanguard Target Retirement 2050 | 28,012,742 | 7.1 | A |
| Vanguard Target Retirement 2055 | 19,808,670 | 7.1 | A |
| Vanguard Target Retirement 2060 | 6,946,533 | 7.3 | A |
| Vanguard Target Retirement 2065 | 449,746 | 7.8 | A |
| Retirement Income | 20,395,448 | 6.0 | A |
| Vanguard Total Bond Index | 30,058,591 | 6.7 | AA |
| Legg Mason BW Global Opportunities Bond Fund I | 9,124,651 | 6.3 | A |
| Certificates of Deposit | 305,305 | N/A | N/A |
| Total | <u>\$ 693,830,853</u> | | |

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 INVESTMENTS (CONTINUED)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment denominated in a foreign currency. The Plan's foreign currency risk exposure resides within the international mutual fund holdings. The Plan does not hold any direct investments or instruments denominated in a foreign currency.

Concentration of Credit Risk

Investments representing 5% or more of fiduciary net position available for benefits consist of the following as of December 31:

| | <u>2022</u> | <u>2021</u> |
|---|----------------|----------------|
| Wells Fargo Stable Value Fund | \$ 124,637,668 | \$ 121,978,925 |
| Vanguard Institutional Index Fund Institutional Plus Shares | 148,883,008 | 181,650,791 |
| Vanguard Target Retirement 2025 Fund | 109,388,685 | 138,212,940 |
| Vanguard Target Retirement 2035 Fund | 85,021,719 | 99,135,217 |
| Vanguard U.S. Growth Fund Admiral | 207,839,694 | 374,672,318 |

NOTE 5 NOTES RECEIVABLE FROM PARTICIPANTS

Notes receivable from participants are measured at amortized cost, which represents the unpaid principal balance plus any accrued but unpaid interest on outstanding participant loans. Participants may take a loan on their account balance subject to certain limitations. The maximum amount that a participant may borrow is equal to the lesser of 50% of their vested Plan account balance (including any amounts held in a self-directed brokerage account); 100% of their vested Plan account balance (not including any amounts held in a self-directed brokerage account); or \$50,000, reduced by the highest outstanding aggregate loan balance during the 12 month period ending on the date of the loan (including any loans from another plan maintained by the City of Seattle. The minimum loan amount required to borrow is \$1,000. Loan terms range from one to five years unless the loan is used to acquire a principal residence, for which the repayment period may be up to 15 years. Loans are secured by the balance in the participant's account and bear interest. Loans will provide for a fixed rate of interest equal to one percent above the prime interest rate as published in the Wall Street Journal fourteen calendar days prior to the first day of the quarter in which the loan is requested. Interest rates on outstanding loans ranged from 4.25% to 8.50% and 3.25% to 8.25% at December 31, 2022 and 2021, respectively. Maturity dates on outstanding loans continue through October 2036 and March 2036, respectively, for the years ended December 31, 2022 and 2021.

If a payment for a loan is not received, the loan is considered to be in default if any scheduled payment remains unpaid beyond the last day of the calendar quarter following the calendar quarter in which the scheduled payment was missed. A defaulted loan will be treated as a deemed distribution and reported to the Internal Revenue Service as such. However, a loan default will not extinguish the repayment obligation and interest will continue to accrue until the loan is repaid or offset. Pending final disposition of the loan, the participant remains obligated for any unpaid principal and accrued interest.

**CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
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DECEMBER 31, 2022 AND 2021**

NOTE 6 STABLE VALUE FUND

The Trust's stable value fund is the Galliard Stable Value Fund. The Galliard Stable Value Fund invests in investment contracts through participation in the Wells Fargo Stable Value Fund G, a collective trust fund sponsored by Wells Fargo Bank, N.A.

The Wells Fargo Stable Return Fund G invests in investment contracts, including traditional guaranteed investment contracts, and security-backed contracts issued by insurance companies and other financial institutions. An investment contract is a contract issued by a financial institution to provide a stated rate of return to the buyer of the contract for a specified period of time. A security-backed contract has similar characteristics as a traditional investment contract and is comprised of two parts: the first part is a fixed-income security or portfolio of fixed-income securities; the second part is a contract value guarantee (wrapper) provided by a third party. Wrappers provide contract value payments for certain participant-initiated withdrawals and transfers, a floor crediting rate, and return of fully accrued contract value at maturity.

Wells Fargo Bank, N.A., serves as trustee, custodian, and administrator for the Wells Fargo Stable Return Fund G. Galliard Capital Management, Inc., a subsidiary of the Wells Fargo Bank, N.A., serves as Nationwide's Stable Value Fund investment advisor.

NOTE 7 FEDERAL INCOME TAXES

The Trust is intended to be an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from federal income tax under Code Sections 457(g) and 501(a). The Trust is subject to all eligibility standards established by the Code for eligible deferred compensation plans. The Trust's administrators believe the Trust is designed in compliance with the applicable requirements of the IRC and is being operated as designed. Therefore, no provision for income taxes has been made in the accompanying financial statements.

NOTE 8 ADMINISTRATIVE EXPENSES

Fees and expenses charged directly to participant account balances consist of loan origination fees and self-directed brokerage account fees. The Trust's policies for fees charged to Plan participants for the years ended December 31, 2022 and 2021, were as follows:

- The Self-Directed Brokerage (SDB) initial account fee is \$50. The fee is assessed against the participant's core account. There are no annual fees associated with a participant's SDB account.
- The Loan Origination Fee is \$25 for each loan. In addition to the loan origination fee, there is a \$50 maintenance fee per participant with an outstanding loan balance per year, a \$50 loan default fee, and a \$50 loan refinancing fee.

CITY OF SEATTLE VOLUNTARY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 8 ADMINISTRATIVE EXPENSES (CONTINUED)

- All fees are deducted from participants' accounts and included in loan, redemption, and other fees on the statement of changes in net position available for benefits. An annual administrative fee of 0.09% (1/12 of 0.09%) is charged monthly to all participants. Revenue sharing amounts returned by Fund companies to the Plan were credited back to the participants who originally held funds that provided revenue sharing. All other administrative plan expenses are paid from the Plan's expense account.



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