



Exit Conference: Tacoma Employees' Retirement System

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Financial statement audit for January 1, 2020 through December 31, 2020 – see draft report.
- Comprehensive Annual Financial Report opinion letter – see letter.

Audit Highlights

We would like to thank Tacoma Employees' Retirement System (TERS) staff for their cooperation and timely response to our requests during the audit.

We would also like to thank the Retirement Director, Assistant Director and staff for making every effort to provide us with requested reports and supporting documentation in a timely manner, especially during this difficult time period of working remotely.

As observed during fieldwork, Retirement System staff work diligently to foster a strong culture of internal controls and have a strong commitment to fiscal accountability and accurate financial reporting.

Communications required by audit standards

In relation to our financial statement audit report, we would like to bring to your attention:

- There were no uncorrected misstatements in the audited financial statements.
- There were no material misstatements in the financial statements corrected by management during the audit.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/SAOPortal/>

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$36,000 and actual audit costs will approximate that amount. We are including the cost of the Schedule audit which will take place in October 2021.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in approximately April 2022 and will cover the following general areas:

- Financial Statement audit including Comprehensive Annual Financial Report Opinion Letter
- Financial Schedule audit

The estimated cost for the next audit based on current rates is \$36,000, plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation of the Office of the Washington State Auditor is designed to offer services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean, peer-to-peer networking and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

Kelly Collins, CPA, Director of Local Audit, (564) 999-0807, Kelly.Collins@sao.wa.gov

Mark Rapozo, CPA, Assistant Director of Local Audit, (564) 999-0794, Mark.Rapozo@sao.wa.gov

Sandra Groshong, Audit Manager, (253) 290-7503, Sandra.Groshong@sao.wa.gov

Christopher Ruiz, Assistant Audit Manager, (253) 593-2047, Christopher.Ruiz@sao.wa.gov

David Smolko, Audit Lead, (253) 593-2047, David.Smolko@sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Tacoma Employees' Retirement System

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

Published July 6, 2021

Report No. 1028648



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

July 6, 2021

The Honorable Mayor and Members of the Board of Administration
Tacoma Employees' Retirement System
Tacoma, Washington

Report on Financial Statements

Please find attached our report on the Tacoma Employees' Retirement System's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

Independent Auditor's 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.....	4
Independent Auditor's Report on the Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	42

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*

Tacoma Employees' Retirement System January 1, 2020 through December 31, 2020

The Honorable Mayor and Members of the Board of Administration
Tacoma Employees' Retirement System
Tacoma, 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 Tacoma Employees' Retirement System, a fiduciary fund of the City of Tacoma, Washington, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Retirement System's basic financial statements, and have issued our report thereon dated June 28, 2021.

The financial statements present only the Tacoma Employees' Retirement System and do not purport to, and do not, present fairly the financial position of the City of Tacoma, Washington, as of December 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include pension trust fund investments valued at \$1.91 billion, which comprise 94.6 percent of total assets and 99.7 percent of total net position restricted for pensions. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners.

As discussed in Note 10 of the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Retirement System is unknown.

The prior year comparative information has been derived from the Retirement System's 2019 basic financial statements, on which we issued our report dated June 23, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Retirement System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Retirement System'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 Retirement System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Retirement System'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 Retirement

System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy, State Auditor

Olympia, WA

June 28, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Tacoma Employees' Retirement System January 1, 2020 through December 31, 2020

The Honorable Mayor and Members of the Board of Administration
Tacoma Employees' Retirement System
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Tacoma Employees' Retirement System, a fiduciary fund of the City of Tacoma, Washington, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Retirement System's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Retirement System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tacoma Employees' Retirement System, as of December 31, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matter of Emphasis

As discussed in Note 1 to the financial statements, the financial statements present only the Tacoma Employees' Retirement System and do not purport to, and do not, present fairly the financial position of the City of Tacoma, Washington, as of December 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As explained in Note 2 of the financial statements, the financial statements include pension trust fund investments valued at 1.91 billion, which comprise 94.6 percent of total assets and 99.7 percent of total net position restricted for pensions. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners. Our opinion is not modified with respect to this matter.

As discussed in Note 10 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Retirement System is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Retirement System's financial statements for the year ended December 31, 2019, from which such partial information was derived. We have previously audited

the Retirement System's 2019 financial statements and we expressed an unmodified opinion in our report dated June 23, 2020. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2019, is consistent in all material respects with the audited financial statement from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Retirement System's basic financial statements as a whole. The Schedule of Administrative Expenses, Schedule of Payments to Consultants and Schedule of Investment Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2021 on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retirement System's internal control over financial reporting and compliance.

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 28, 2021

**Tacoma Employees' Retirement System
January 1, 2020 through December 31, 2020**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Fiduciary Net Position – 2020

Statement of Changes in Fiduciary Net Position – 2020

Notes to the Basic Financial Statements – 2020

Required Supplementary Information

Schedule of Changes in Net Pension Liability or Asset of Employers and Related Ratios
– 2020

Schedule of Net Pension Liability or Asset of Employers – 2020

Schedule of Employer Contributions – 2020

Schedule of Investment Returns – 2020

Notes to Required Supplementary Information – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Administrative Expenses – 2020

Schedule of Payments to Consultants – 2020

Schedule of Investment Expenses – 2020

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.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov