Office of the Washington State Auditor
Pat McCarthy

July 20, 2023

Mayor and City Council
City of Spokane
Spokane, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the City of Spokane's pension trust fund, Spokane Employees' Retirement System, for the fiscal year ended December 31, 2022. The City contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

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Report of Independent Auditors
and Financial Statements
with Required Supplementary Information

Spokane Employees' Retirement System
(Pension Trust Fund of the City of Spokane, Washington)

December 31, 2022 and 2021

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MOSSADAMS

Report of Independent Auditors

The Board of Administration
Spokane Employees Retirement System

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Spokane Employees' Retirement System (Plan), a component unit of the City of Spokane, Washington, which comprise the statements of fiduciary net position as of December 31, 2022 and 2021, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of Spokane Employees' Retirement System as of December 31, 2022 and 2021, and the respective 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) and the standards applicable to financial audits contained in *Government Auditing Standards (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 Plan 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 opinion.

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Plan and do not purport to, and do not, present fairly the financial position of the City of Spokane, Washington, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. 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 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.

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.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, 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.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plan's basic financial statements. The schedule of administrative expenses and schedule of investment expenses, as identified in the table of contents 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 schedule of administrative expenses and schedule of investment expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2023, on our consideration of the Plan'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 solely 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 Plan'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 Plan's internal control over financial reporting and compliance.

Moss Adams LLP

Spokane, Washington
May 30, 2023

Management Discussion and Analysis

This section presents management's discussion and analysis of the Spokane Employees' Retirement System's (SERS, System, or Plan) financial performance during the year ended December 31, 2022. Please read it in conjunction with the accompanying financial statements and the related notes.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair market value or net asset value and income includes the recognition of unrealized gains or losses. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. For ease of reading, the dollar amounts that appear in these narratives are typically rounded to the closest one thousand dollars. The basis of contributions to the System is the Entry Age Normal funding method, with current service contributions based on the normal contribution rate determined under the funding method and unfunded prior service amortized as a level percentage of covered payroll over a period of no more than 30 years in accordance with generally accepted accounting principles. SageView Consulting Group, LLC, the System's actuary, evaluates the funding status of the System.

The financial section contains the following information:

1. **Basic Financial Statements** including:
   a. Statements of fiduciary net position
   b. Statements of changes in fiduciary net position
   c. Notes to financial statements
2. **Required Supplementary Information** including:
   a. Schedule of changes in the employer's net pension liability and related ratios
   b. Schedule of employer's contributions
   c. Schedule of investment returns
3. **Additional Supplementary Information** including:
   a. Schedule of administrative expenses
   b. Schedule of investment expenses

The basic financial statements are described as follows:

- The statements of fiduciary net position show the account balances at year end and include the net position available for future benefit payments. The Plan's net position is restricted to the payment as shown in the schedule of employers' net pension liability and related ratios.

- The statements of changes in fiduciary net position show the sources and uses of funds during the year corresponding to the change in net position from the previous year.

- The notes to the financial statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical data and projected obligations that reflect the long-term nature of the Plan and trends over time.

- Schedule of changes in the employer's net pension liability and related ratios contains the items contributing to the changes in the pension liability and Plan's net position. Ratios comparing the unfunded liability to the Plan's net position and covered-payroll are also provided.

- Schedule of employer's contributions contains a history of employee and employer contributions made to the Plan.

- Schedule of investment returns contains a history of the Plan's investment performance on a money-weighted basis.

Financial Highlights

- Net position restricted for pension end of year balance was $311.1 million for 2022 and $374.5 million for 2021, a decreased by $63.4 million (-16.9%) during 2022, and increased by $34.6 million (10.2%) during 2021. Investments returned -13.5% in 2022, providing $50.2 million of net investment loss. The net outflows for benefit payments (benefit payments and refunds, less total contributions) were $13.2 million.

- Total additions and changes in investments were $-26.4 million in 2022, compared to $69.2 million in 2021. For 2022, revenue includes member and employer contributions of $23.8 million and net investment loss of $50.2 million. Member and employer contributions increased by $755 thousand (3.3%) in 2022 compared to an increase of $1.7 million (8.1%) in 2021. Net investment income (or loss), which fluctuates year-to-year depending on market conditions, was $-50.2 million in 2022, a decrease of $96.4 million compared to income of $46.2 million in 2021.

- Total Plan expenses and payments for 2022 were $36.9 million, a 6.8% increase from 2021. Total expense amounts and fluctuations are primarily driven by pension benefit payments, which make up 98.2% of total expenses. Retiree benefits increased by $1.8 million (5.4%) during 2022 and by $1.7 million (5.3%) during 2021. Administrative expenses increased by $71.5 thousand (11.8%) during 2022 compared to a decrease of $11 thousand (-1.8%) in 2021.

Financial Statements and Analysis

Changes in Plan Net Position

The table below provides a summary of the changes in Plan net position during the years ended December 31:

	2022	2021	2020
Additions and changes in investments			
Employer contributions	**$ 11,863,726**	**$ 11,519,708**	$ 10,659,281
Plan member contributions	**11,931,102**	**11,519,708**	10,659,281
Net investment income (loss)	**(50,241,335)**	**46,166,835**	33,795,088
Total additions and changes in invesments	**(26,446,507)**	**69,206,251**	55,113,650
Deductions			
Benefits	**35,057,797**	**33,256,350**	31,595,115
Refunds of contributions	**1,210,280**	**741,019**	513,758
Net administrative expenses	**679,519**	**603,645**	619,135
Total deductions	**36,947,596**	**34,601,014**	32,728,008
Net increase (decrease) in net position	**(63,394,103)**	**34,605,237**	22,385,642
Net position restricted for pensions			
Beginning of year	**374,533,245**	**339,928,008**	317,542,366
End of year	**$ 311,139,142**	**$ 374,533,245**	$ 339,928,008

Additions and Changes in Investments to Net Plan Position

- Employer contributions increased by 3.0% ($344 thousand) and Plan participant contributions increased by 3.6% ($411 thousand) in 2022. In 2021 Employer contributions increased by 8.1% ($860 thousand) and Plan participant contributions increased by 8.1% ($860 thousand). Participant contributions may vary from employer contributions if rehired employees exercise their option to buy-back creditable service time from a prior withdrawal upon being rehired. Employer and participant contributions are driven by employees' salaries/wages and the contribution rate. Effective December 26, 2021, the contribution rate changed from 10.0% to 10.25% of salary for both employees and employer. There was no change to the contributions rate in 2022.

- Net investment loss was $-50.2 million in 2022 compared to income of $46.2 million in 2021, a significant decrease from the prior year. In 2022, the portfolio's annual return was -13.5% compared to 13.7% in 2021. In 2021, markets were generally positive. After many quarters of economic headwinds, the market finished 2022 on a broadly positive note, with the S&P 500 and MSCI ACWI ex-USA up +7.56% and +14.28% respectively for the quarter though ending the year at -18.11% and -16.00%. Bond markets also reacted positively on the increasing expectation that inflation is in remission and Fed tightening is approaching a peak. Investment managers in turn conveyed an expectation that although rates are not going back to levels seen a few years back, market activity and issuance can pick back up via rate stabilization. Overall, the market sentiment appeared to show preference to the positive news stemming from the Fed and a strong job market as opposed to the gathering headwinds more apparent in consumer data and corporate margins. In the context of a very challenging year, Capital Preservation was the highest performing asset class, returning -7.41%. Domestic and International Equities were down -18.25% and -17.36% respectively for the year while the remaining asset class returns ranged from -8.09% to -10.62%. On a portfolio-level, Special Opportunities was the strongest contributor, adding +0.07% to benchmark-relative performance while Real Estate was the weakest, detracting -0.54% (this was due to a REIT allocation, which declined in advance of Core Real Estate). Despite 2022's challenging backdrop the portfolio ranked in the top third of comparable peers.

Deductions from Net Plan Assets

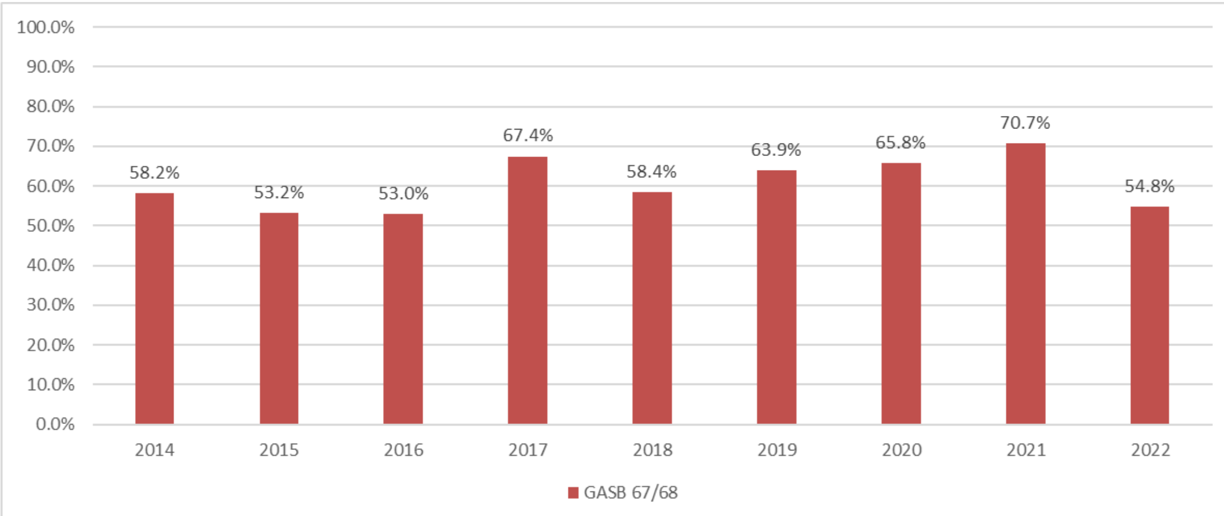
- Retiree benefits paid increased by $1.8 million (5.4%) in 2022 and $1.6 million (5.3%) in 2021 compared to the prior years. The number of retirees and beneficiaries increased by 48 (3.1%) in 2022 and by 30 (2.0%) in 2021. SERS' active member age is an average of 46.59 years old, which is a slight decrease from 47.27 in 2021. Similarly, average active participant service has remained relatively unchanged, decreasing slightly from 10.90 years in 2021 to 10.20 years in 2022.

- Refunds of contributions increased by $469 thousand (66.3%) in 2022 compared to an increase of $227 thousand (44.2%) in 2021. Lump sum withdrawals from the Plan can fluctuate from year to year based on the number of participants that leave the system and the average size of withdrawal.

- Net administrative expenses include salaries and benefits for SERS staff, along with other costs associated with administering the Plan. These expenses are shown on the Schedule of Administrative Expenses. Staff and the SERS Board of Administration (Board) continue to be diligent about Plan operating expenses. The net administrative expenses were $680 thousand, an increase of 11.8% compared to 2021. The increase to administrative expenses is primarily due to an increase in professional services and education with travel. Administrative expenses represent only 1.8% of total annual expenditures and rose as a proportion of total assets to 0.22%.

Funding Status

The Net Pension Liability (NPL) is the actuarial present value of benefits accrued, adjusted to reflect future changes based on the actuarial assumptions. The funded ratio compares the NPL to Plan assets.



This schedule is designed to show information for 10 years. However, until a full 10-year trend is compiled, the Plan will present information for those years for which information is available.

Beginning in 2014, and reported retrospectively, the implementation of the Governmental Accounting Standards Board (GASB) No. 67 resulted in a new method for measuring the future value of Plan liabilities. The discount rate for any funding shortfalls moved from the long-term assumed rate of return to the municipal bond borrowing rate for all points in time after fund assets are projected to be depleted. This change in methodology reduced the discount rate from 7.50% to 5.50%, which increased the value of the reported unfunded liability through 2016. The lower discount rate reduced the funding ratio from 69.3% to 58.2% in 2014 when GASB No. 67 was implemented for the Plan.

In 2017, a new tier was added to the Plan that reduced the normal cost for employees hired on or after January 1, 2018. In addition, the participant and employee contribution rates are now tied to the Actuarially Determined Contribution (ADC) rate as determined by the Plan's actuary in the annual valuation. These changes were sufficient to eliminate the projected depletion of assets and set the discount rate equal to the 7.50% assumed rate of return.

Funds are accumulated from employer and employee contributions and investment earnings and are used to pay present and future benefit obligations and administrative expenses. For most of 2021, active members contributed 10.0% of their salaries to the Plan and the City contributed 10.0%, for a total of 20.00%. Starting December 26, 2021, active members contributed 10.25% of their salaries to the Plan and the City contributes 10.25%, for a total of 20.50%. The current 10.25% employer and employee contribution rate is expected to allow the Plan to gradually improve its funded position.

Investment Activities

One-year returns on asset classes and comparative benchmarks are presented in the table below. The policy indices and benchmarks are in italics.

	Investment Return	
	2022	2021
Total portfolio	**-13.5%**	13.7%
Policy Index	***-12.3%***	*14.1%*
Capital Preservation	**-7.4%**	2.4%
Capital Preservation Policy Index	***-8.1%***	*3.1%*
Total Return Bonds	**-12.7%**	-1.0%
Bloomberg US Aggregate Bond Index	***-13.0%***	*-1.6%*
High Yield Bonds	**-9.7%**	6.8%
Bloomberg US Corporate High Yield Index	***-11.2%***	*5.3%*
Absolute Return	**-2.3%**	4.1%
HFRI FOF Conservative Index	***0.1%***	*7.6%*
Domestic Equity	**-18.2%**	25.7%
Domestic Equity Policy Index	***-18.2%***	*25.1%*
US Large Cap Equities	**-18.1%**	29.1%
S&P 500 Index	***-18.1%***	*28.7%*
US Small/Mid Cap Equities	**-18.5%**	19.7%
Russell 2500 Index	***-18.4%***	*18.2%*
International Equity	**-17.4%**	9.7%
International Equity Policy Index	***-17.2%***	*7.3%*
International Large Cap Equities	**-14.4%**	9.9%
MSCI ACWI Ex-US Index	***-16.0%***	*7.8%*
International Small/Mid Cap Equities	**-23.1%**	12.4%
MSCI ACWI Ex-US Small Cap Index	***-20.0%***	*12.9%*
Emerging Market Equities	**-23.0%**	5.6%
MSCI EM Free Index	***-20.1%***	*-2.5%*
Long Biased Hedge Funds	**-8.4%**	4.5%
HFRI FOF Composite Index	***-5.3%***	*6.1%*
Opportunistic Credit	**-8.1%**	20.6%
HFRI Distressed Restructuring Index	***-4.3%***	*15.6%*
Real Estate	**-10.6%**	27.9%
NCREIF ODCE Index	***6.6%***	*21.0%*
Special Opportunities	**-10.3%**	-21.5%
Russell 3000 Index	***-19.2%***	*25.7%*

The investments of the System are governed by the “prudent investor rule.” The prudent investor rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund.

The System is a long-term investor with a perpetual investment horizon, anticipating ongoing investment cycles with both good and bad years for financial markets. Investments are diversified to reduce investment risk and mitigate the risk of underperforming the actuarial rate of return. While annual market performance is unlikely to match the actuarial rate of return in any given year, long-term returns are expected to be in line with the assumption based on the diversified nature of the portfolio. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant and has been reviewed by the Retirement Director and the Board. The asset allocation study that was modeled by the independent consultant and completed in 2016 demonstrated that alternative assets have low correlations to traditional asset classes and are expected to add value to the portfolio over time. The Chief Investment Officer (CIO) and Board believe the use of alternative investments increases the expected return and reduces the risk of the Plan compared to investing only in traditional asset classes.

Contacting the Spokane Employees' Retirement System

If you have questions about this report or need additional information, please contact:

Spokane Employees' Retirement System
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509.625.6330

Financial Statements

Spokane Employees' Retirement System
Statements of Fiduciary Net Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash	**$ 111,725**	$ 268,476
Short-term investments	**912,268**	1,795,164
Total cash and short-term investments	**1,023,993**	2,063,640
Receivables		
Investment income	**217,767**	195,806
Other	**3,012**	777
Total receivables	**220,779**	196,583
Investments	**309,914,488**	372,281,363
Capitalized software, net	**158,841**	176,490
Total assets	**$ 311,318,101**	$ 374,718,076
Liabilities		
Payables		
Accounts payable	**$ 85,365**	$ 104,517
Employee salaries and benefits	**7,271**	5,667
Employee leave benefits	**74,936**	62,125
Other liabilities	**11,387**	12,522
Total liabilities	**178,959**	184,831
Net position restricted for pensions	**$ 311,139,142**	$ 374,533,245

See accompanying notes.

Spokane Employees' Retirement System
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
Additions and changes in investments		
Contributions		
Employer	**$ 11,863,726**	$ 11,519,708
Member	**11,931,102**	11,519,708
Total contributions	**23,794,828**	23,039,416
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	**(54,068,120)**	41,998,002
Interest and dividends	**4,326,389**	4,726,318
Less investment expense	**(499,604)**	(557,485)
Net investment income (loss)	**(50,241,335)**	46,166,835
Total additions and changes in investments	**(26,446,507)**	69,206,251
Deductions		
Benefit payments	**35,057,797**	33,256,350
Refunds of member contributions	**1,210,280**	741,019
Administrative expenses, net of administrative income	**679,519**	603,645
Total deductions	**36,947,596**	34,601,014
Net increase (decrease) in net position	**(63,394,103)**	34,605,237
Net position restricted for pensions		
Beginning of year	**374,533,245**	339,928,008
End of year	**$ 311,139,142**	$ 374,533,245

See accompanying notes.

Note 1 – Plan Description

Plan administration – The Spokane Employees' Retirement System (SERS, System, or Plan) is a multiple employer defined benefit pension plan covering employees of the City of Spokane (City), administered in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code (SMC).

SERS is a pension trust fund of the City and is presented as a blended component unit within the fiduciary fund of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of elected officials, who may opt out of the Plan, and police and firefighters, who are members of the State Law Enforcement Officers and Firefighters' Retirement System. Additionally, certain SERS members that moved to the Spokane Regional Emergency Communications (SREC) are eligible to remain in SERS. Such members have the same benefits, eligibility requirements, and contribution rates as current SERS members.

Management of SERS is vested in the SERS Board of Administration (Board), which consists of seven members: three members are elected by active employee Plan members, three members are appointed by the Spokane City Council, and one member (who may not be an elected official or employee of the City) is appointed by the other six Board members.

Reporting entity – The accompanying financial statements present only the Plan, a component unit of the City, and are not intended to present fairly the financial position of the City, the changes in its financial position, or where applicable, its cash flows in accordance with accounting principles generally accepted in the United States of America.

Plan membership – At December 31, 2022 and 2021, pension Plan membership consisted of the following:

	2022	2021
Retirees or beneficiaries currently receiving benefits	1,582	1,534
Inactive plan members entitled to but not yet receiving benefits	161	134
Active plan members	1,535	1,494
	3,278	3,162

Benefits provided – SERS provides retirement, death, and disability benefits. All employees hired before January 1, 2009, who participate in SERS, are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.5%. Employees hired prior to January 1, 2009, may retire under the terms of a subsequent tier if it provides a greater benefit.

All employees hired between January 1, 2009, and December 31, 2014, who participate in SERS, are eligible for service retirement after completing five years of service and reaching the normal retirement age of 62. This group of employees may retire early with full benefits if they reach age 50 and their age, plus years of service, total to 75. Retirement benefits are calculated by multiplying 2.00% of the member's highest consecutive two-year average salary by the member's years of creditable service, to a maximum of 70.0%. In addition, the employees hired between January 1, 2009, and December 31, 2014, may retire under the terms of a subsequent tier if it provides a greater benefit.

All employees hired between January 1, 2015, and December 21, 2017, who participate in SERS, are eligible for service retirement after completing seven years of service and reaching the normal retirement age of 65. This group of employees may retire early, with full benefits, if they reach age 50 and their age, plus years of service, total to 80. Retirement benefits are calculated by multiplying 2.00% of the member's highest consecutive three-year average salary by the member's years of creditable service, to a maximum of 70.00%. Employees hired between January 1, 2015, and December 31, 2017, may retire under the terms of a subsequent tier if it provides a greater benefit.

All employees hired on or after January 1, 2018, who participate in SERS, are eligible for service retirement after completing seven years of service and reaching the normal retirement age of 65. Early retirement, with no reduction of benefits, may be elected when an employee's age plus years of service total to 90 or if they are age 50 or older and complete 30 years of service. A reduced early retirement may be elected with benefits reduced by 2.5% per year for each year before the retiree would be eligible for full retirement. Retirement benefits are calculated by multiplying 2.00% of the member's highest consecutive three-year average salary by the member's years of creditable service, with an annual cap on overtime plus base pay equal to 120% of base pay. The maximum retirement factor is 80.0%.

For all employee groups, benefits may be reduced on an actuarially equivalent basis according to the retirement annuity option selected for themselves and their beneficiaries.

The Board considers issuing an ad hoc adjustment for retiree benefits each year. The Board can grant an ad hoc adjustment if the funded ratio is 90% or greater and remains above 90% after the ad hoc adjustment is granted. The funded ratio was less than 90% as of December 31, 2022. The last ad hoc retiree adjustment occurred in 2001. Based on the current funded ratio, the Plan does not anticipate making ad hoc adjustments for the foreseeable future. It will take continued favorable experience in the investment markets or an increase in contribution levels to raise the funded ratio above the ad hoc threshold.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date.

Use of estimates – In preparing the Plan's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Methods used to value investments – All fixed income, common stock, and short-term investments are listed at fair market value. Fixed income securities and common stock traded on national exchanges are valued at fair market value based on the closing price of the securities. Investments that do not have an established market are reported at estimated fair value.

Investment fees 20represent cash payments made to money managers and other investment professionals. Certain investments, such as mutual funds and limited partnerships, net their management fees before the fund itself reports net investment income for the period and are not reflected in this schedule. However, these investment expenses are netted against investment income in the statement of changes in fiduciary net position to arrive at a net investment income amount.

Investments are exposed to various risks, such as interest rate, market, credit, and regulatory risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect total net position and the amounts reported in the statements of fiduciary net position.

Note 3 – Deposits and Investments

Deposits – The Federal Deposit Insurance Corporation (FDIC) insures the cash deposits up to $250,000 per depositor. As provided by State of Washington RCW 43.84, the Washington Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of $100,000.

Investment policy – The Plan's policy regarding the allocation of invested assets is established, and may be amended, by a majority vote of the Board. It is the policy of the Board to pursue an investment strategy that meets the projected return requirements while minimizing volatility by diversifying the portfolio across a broad selection of distinct asset classes. The Plan's investment policy limits the use of cash equivalents to meeting liquidity requirements and reviews rebalancing needs at least quarterly. The investment policy was not updated during the reporting period.

The following was the Board's target asset allocation as of December 31, 2022 and 2021:

Asset Class	Target Allocation	
	2022	2021
Domestic equities	**32%**	32%
Capital preservation	**23%**	23%
International equities	**22%**	22%
Real estate	**9%**	9%
Long biased	**7%**	7%
Opportunistic credit	**7%**	7%
Special opportunities[1]	**0%**	0%
Total	**100%**	100%

[1] By policy, special opportunities may be up to 10%

Rate of return – For the years ended December 31, 2022 and 2021, the annual money-weighted rate of return on pension Plan investments, net of pension Plan investment expense, was -8.5% and 13.7%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investments – The SERS' investment management policy is set by the Board. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS investments are governed by an investment standard known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan.

Investments of the pension trust funds are reported at fair value. The Board maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board has contracted with investment managers, a custodian, and an independent investment consultant. Investment manager contracts include specific guidelines regarding the investments under management. All investments are held in custody. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board.

The Board has an asset allocation policy that includes allocations to alternative investments. The term "alternative investments" encompasses a broad category of investments other than traditional asset classes of equites, fixed income, and real estate. Funding of these investments began in 2007 and continues on an ongoing basis.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. Although the SERS Investment Policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its fixed income portfolios and by setting criteria for fixed income manager selection. SERS' fixed income assets are comprised of one institutional class mutual fund and one separately managed account targeting different levels of credit risk.

Concentration of credit risk – SERS has no holdings by an issuer that represent five percent or more of SERS' investments at December 31, 2022 and 2021. SERS' holdings in organizations that manage five percent or more of the Plan's fiduciary net position at December 31, 2022 and 2021, were:

	2022	2021
Organization	**% of Net Position**	
Hotchkis & Wiley	11.6%	9.2%
Sterling Capital Management	10.2%	9.0%
Artisan Partners	9.5%	7.9%
American Funds	7.7%	6.8%
MFS Investment Management	6.5%	5.2%
Evanston Capital Management	6.0%	6.0%
Principal Global Investments	2.2%	5.2%
Fidelity Investments	0.0%	12.8%

Custodial credit risk – Custodial credit risk is the risk that in the event of a financial institution or bank failure, SERS would not be able to recover the value of its deposits and investments that are in the possession of an outside party. SERS does not have exposure to custodial credit risk.

Interest rate risk – Interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Although the SERS Investment Policy does not specifically limit interest rate risk, the System's fixed income portfolio is professionally managed with an expected range of interest rate risk within the portfolio. In addition, the portfolio is closely monitored by the independent consultant and the staff.

The table below shows the System's fixed income assets by investment type, average effective maturity, and market value as of December 31, 2022:

Asset	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Fixed income mutual funds	$ 20,230,050	$ 20,230,050	$ -	$ -	$ -
Corporate notes and bonds	5,615,602	318,320	2,226,415	1,267,470	1,803,398
Asset backed securities	6,037,583	-	1,004,376	1,810,213	3,222,994
Governmental CMOs	4,887,423	-	-	66,609	4,820,814
Municipal bonds	1,196,272	505,716	42,089	370,366	278,101
Mortgage backed governmental passthrough	952,883	-	-	624,352	328,531
U.S. government treasuries	5,041,688	799,885	208,900	1,152,956	2,879,946
	$ 43,961,501	$ 21,853,970	$ 3,481,781	$ 5,291,966	$ 13,333,784

The table below shows the System's fixed income assets by investment type, average effective maturity, and market value as of December 31, 2021:

Asset	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Fixed income mutual funds	$ 23,218,830	$ 23,218,830	$ -	$ -	$ -
Corporate notes and bonds	10,930,043	311,612	3,680,158	2,713,369	4,224,904
Asset backed securities	7,233,237	-	1,819,972	1,186,041	4,227,224
Governmental CMOs	3,402,236	-	-	94,633	3,307,603
Municipal bonds	1,709,705	313,249	569,317	443,900	383,239
Mortgage backed governmental passthrough	1,153,470	-	-	692,260	461,210
U.S. government treasuries	2,692,618	1,627,310	112,520	7,351	945,437
	$ 50,340,139	$ 25,471,001	$ 6,181,966	$ 5,137,554	$ 13,549,617

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At December 31, 2022 and 2021, 26.8 % and 28.9%, respectively, of the System's portfolio is invested in foreign issued securities, which primarily consist of equities, fixed income, and alternative investments. The SERS Investment Policy does not specifically address foreign currency risk; however, the System considers foreign currency risk during the selection and monitoring process of fund managers. The fair market value of the foreign investments as of December 31, 2022, were:

	Total Investments	U.S. Issues	Foreign Issues	% Foreign
Cash	$ 912,268	$ 912,268	$ -	0.0%
Fixed income	43,961,501	43,130,797	830,704	1.9%
Equities	159,684,618	93,815,044	65,869,573	41.2%
Real estate	30,758,875	30,758,875	-	0.0%
Alternatives	75,509,494	58,859,761	16,649,732	22.0%
Total	**$ 310,826,756**	**$ 227,476,745**	**$ 83,350,009**	**26.8%**

The fair market value of the foreign investments as of December 31, 2021, were:

	Total Investments	U.S. Issues	Foreign Issues	% Foreign
Cash	$ 1,795,164	$ 1,795,164	$ -	0.0%
Fixed income	50,340,139	46,651,986	3,688,153	7.3%
Equities	204,543,821	118,843,367	85,700,454	41.9%
Real estate	33,697,767	33,697,767	-	0.0%
Alternatives	83,699,636	65,122,533	18,577,103	22.2%
Total	**$ 374,076,527**	**$ 266,110,817**	**$ 107,965,710**	**28.9%**

Note 4 – Pension

The components of the employer's net pension liability as of December 31, 2022 and 2021, are:

	2022	2021
Total pension liability	$ 567,457,183	$ 529,869,491
Plan fiduciary net position	311,139,142	374,533,245
Employer's net pension liability	$ 256,318,041	$ 155,336,246
Plan fiduciary net position as a percentage of the total pension liability	54.83%	70.68%

Actuarial assumptions are adopted by the Board, upon review of recommendations made by the actuary. An experience study was conducted for the five-year period ended December 31, 2021. This study resulted in the Board adopting several changes in assumptions as of December 31, 2022, at the recommendation of the actuary, in order to better anticipate emerging experience under the System. Changes in assumption include the mortality tables changed from RP-2000 Fully Generational in 2021 to PUB-2010 with ages set forward 2 years for males and 1 year for females using Projection Scale MP-2021 in 2022. In addition, the inflation rate increased from 2.25% in 2021 to 2.5% in 2022. Finally, the annual payroll growth rate decreased from 4% in 2021 to 3.5% in 2022.

The long-term expected rate of return – The long-term expected rate of return on pension Plan investments was determined using statistical methods to determine the best-estimate future real rate of return (net of pension Plan investment expense and inflation) based on long-term performance of the major asset classes. These returns are used to determine the estimated portfolio return based on the target asset allocation percentage of each asset class. Best estimates of geometric real rates of return for each major asset class included in the pension Plan’s target asset allocation as of December 31, 2022 and 2021, are summarized in the following table:

	2022		2021	
Asset Class	Long-Term Expected Real Rate of Return	Nominal Return	Long-Term Expected Real Rate of Return	Nominal Return
Domestic equities	7.0%	9.54%	6.5%	9.54%
Capital preservation	2.4%	4.92%	1.9%	4.92%
International equities	6.4%	8.90%	5.9%	8.90%
Long biased	3.7%	6.20%	3.2%	6.20%
Opportunistic credit	7.5%	9.95%	3.0%	5.95%
Real estate	2.7%	5.15%	2.2%	5.15%
Inflation		2.50%		3.00%

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current 10.25% contribution rate, which went into effect December 26, 2021, and that City contributions will be made at the same rate. Generally accepted accounting principles (GAAP) requires the use of a blended discount rate to the extent future contributions are not projected to be sufficient to provide future benefits for the current closed group of Plan participants. If that is the case, the expected long-term rate of return on Plan assets, currently 7.5%, is used for the period where assets are projected to be sufficient and the current yield on the 20-year AA municipal bonds is used thereafter.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of SERS, calculated using the blended discount rate of 7.5%, as well as what SERS's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employer's net pension liability	$ 315,900,727	$ 256,318,041	$ 205,519,330

Note 5 – Fair Value Measurement

Investments measured and reported at fair value are classified according to the following hierarchy, in accordance with GASB Statement 72 – *Fair Value Measurement and Application:*

Level 1 – Quoted prices for an identical asset in an active market.

Level 2 – Quoted prices for an identical asset in an inactive market and market values where prices are determined using observable inputs.

Level 3 – Market value where prices are determined using unobservable inputs.

NAV – Net Asset Value (NAV) is used as a practical expedient where the investment does not have a readily determinable fair value.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Equity investments classified as Level 1 in the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Equity investments classified as Level 2 represent proportional ownership in Collective Investment Trusts (CIT). All assets in the CIT have observable prices in active markets, with the fair value of the CIT representing a proportionate share of all underlying assets held in the CIT.

Fixed income investments classified as Level 1 in the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Fixed income investments classified as Level 2 represent quoted prices for similar assets.

The following table presents fair value measurements as of December 31, 2022:

	2022				
	Fair Value	Level 1	Level 2	Level 3	NAV
Cash equivalents	$ 912,268	$ 912,268	$ -	$ -	$ -
US Government	10,881,994	-	10,881,994	-	-
US corporate fixed income	4,784,899	-	4,784,899	-	-
International fixed income	830,703	-	830,703	-	-
Asset backed securities	6,037,583	-	6,037,583	-	-
Municipal bonds	1,196,272	-	1,196,272	-	-
Fixed income mutual funds	20,230,050	20,230,050	-	-	-
Total fixed income	43,961,501	20,230,050	23,731,451	-	-
US common stock	21,250,230	12,208,414	-	-	9,041,816
International common stock	12,669,343	307,776	-	-	12,361,567
Equity mutual funds	125,765,045	125,685,975	79,070	-	-
Total equities	159,684,618	138,202,166	79,070	-	21,403,383
Real estate	30,758,875	11,715,116	-	-	19,043,758
Alternatives	75,509,494	-	-	-	75,509,494
Total investments	$ 310,826,756	$ 171,059,600	$ 23,810,521	$ -	$ 115,956,635

The following table presents fair value measurements as of December 31, 2021:

	2021				
	Fair Value	Level 1	Level 2	Level 3	NAV
Cash equivalents	$ 1,795,164	$ 1,795,164	$ -	$ -	$ -
US Government	7,248,325	-	7,248,325	-	-
US corporate fixed income	9,235,858	-	9,235,858	-	-
International fixed income	1,694,186	-	1,694,186	-	-
Asset backed securities	7,233,237	-	7,233,237	-	-
Municipal bonds	1,709,704	-	1,709,704	-	-
Fixed income mutual funds	23,218,830	23,218,830	-	-	-
Total fixed income	50,340,140	23,218,830	27,121,310	-	-
US common stock	30,739,637	14,776,342	-	-	15,963,295
International common stock	12,317,404	533,560	-	-	11,783,844
Equity mutual funds	161,486,780	145,523,485	15,963,295	-	-
Total equities	204,543,820	160,833,386	15,963,295	-	27,747,139
Real estate	33,697,767	19,398,925	-	-	14,298,842
Alternatives	83,699,636	-	-	-	83,699,636
Total investments	$ 374,076,527	$ 205,246,305	$ 43,084,605	$ -	$ 125,745,617

The valuation method for investments measured at the NAV per share, or equivalent, at December 31, 2022 and 2021, are presented in the tables below:

	2022			
	Net Asset Value (NAV)	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice**
Equity fund	$ 21,403,383	$ -	Monthly, annually	15-90 days
Long/short hedge fund	20,448,482	-	Quarterly	60-65 days
Real estate fund	19,043,758	10,355,129	N/A, quarterly with queue	90 days
Absolute return hedge fund	26,046,188	-	Monthly, quarterly, semi-annual	30-45 days
Closed-end hedge fund	817,899	272,444	N/A	N/A
Fixed income fund	28,196,926	-	Quarterly	90 days
Total investments valued at NAV	$ 115,956,636	$ 10,627,573		

	2021			
	Net Asset Value (NAV)	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice**
Equity fund	$ 27,747,139	$ -	Monthly, annually	15-90 days
Long/short hedge fund	26,033,783	-	Quarterly	60-65 days
Real estate fund	14,298,842	5,267,787	N/A, quarterly with queue	90 days
Absolute return hedge fund	26,338,751	-	Monthly, quarterly, semi-annual	30-45 days
Closed-end hedge fund	1,008,579	2,780,081	N/A	N/A
Fixed income fund	30,318,523	-	Quarterly	90 days
Total investments valued at NAV	$ 125,745,617	$ 8,047,868		

Equity fund – Three funds that invest long-only in less efficient markets seeking to capture illiquidity and information asymmetry premiums. The two domestic equity funds are invested in collective investment vehicles that are valued based on a pro-rata share of the overall fund. The fund is a fund of funds and valued based on the net asset value provided for each of the underlying investments.

Long/short hedge fund – Two funds that invest long and short to generate outsize risk-adjusted returns. One fund is valued at net asset value of units held based on underlying holdings. One fund is a fund of funds and is valued based on the net asset value provided for each of the underlying units.

Real estate fund – Four funds that invest primarily in commercial real estate properties and debt instruments. The fair values of these funds have been determined using net assets valued based on the appraised value of the holdings. Four funds are not eligible for redemption with distributions received as underlying investments within the funds are liquidated, which on average can occur over the span of 5 to 10 years. One fund allows for quarterly redemptions subject to a queue and provides quarterly distributions based on the net operating profit of the properties owned.

Absolute return hedge fund – Three funds that seek to generate consistent positive returns with low volatility and low net market exposure. Each fund’s unit net asset value is based on the value of the underlying holdings.

Closed-end hedge fund – Two funds that invest primarily in medical royalty streams or securities associated with the royalties. The fair value of the fund is determined using discounted cash flow models based on expected future cash flows. The fund is not eligible for redemption. Distributions are received as underlying investments within the fund generates cash flows, which on average can occur over the span of 5 to 10 years.

Fixed income fund – Three funds that invest in less liquid or distressed debt securities. All funds unit net asset value is based on the value of the underlying holdings.

Note 6 – Contributions Required and Contributions Made

Member and employer contribution rates are established by City Code, Chapter 4.14. Effective December 26, 2021, member contributions are 10.25% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 10.25% of eligible compensation for a combined total of 20.50%. Member and employer contribution rates are established by City Code, Chapter 4.14. Effective December 27, 2020, member contributions were 10.0% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributed 10.0% of eligible compensation for a combined total of 20.0%. Effective December 15, 2019, member contributions were 9.75% of eligible compensation and were deducted from the member's salary and paid into the retirement fund; the City contributed 9.75% of eligible compensation for a combined total of 19.5%.

Contribution rates are reviewed annually to determine if they meet the Actuarially Determined Contribution (ADC). If the contribution rate is less than the ADC, the contribution rate shall be increased by up to 1.0% per year for both the employee and employer. It is contemplated that over the long term, the contribution by the City will, when added to the member's contribution, plus other revenues, be enough to properly fund the retirement benefits set forth.

Required Supplementary Information

Spokane Employees' Retirement System

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios

	2022	2021	2020	2019	2018	2017	2016
Total pension liability							
Service cost	$ 10,676,035	$ 10,379,208	$ 10,326,519	$ 9,814,459	$ 9,397,166	$ 13,133,393	$ 12,896,547
Interest	38,404,746	37,498,043	36,091,730	34,666,267	33,296,148	29,336,782	27,443,176
Changes of benefit terms	-	-	-	-	-	165,092	-
Differences between expected and actual experience	13,014,651	(675,673)	5,368,635	5,866,404	5,291,272	(3,830,239)	12,381,445
Changes of assumptions	11,760,337	-	-	-	-	(76,976,691)	(14,542,266)
Benefit payments, including refunds of member contributions	(36,268,077)	(33,997,369)	(32,108,873)	(30,600,302)	(28,863,766)	(27,443,693)	(26,467,256)
Net change in total pension liability	37,587,692	13,204,209	19,678,011	19,746,828	19,120,820	(65,615,356)	11,711,646
Total pension liability—beginning	529,869,491	516,665,282	496,987,271	477,240,443	458,119,623	523,734,979	512,023,333
Total pension liability—ending (a)	$ 567,457,183	$ 529,869,491	$ 516,665,282	$ 496,987,271	$ 477,240,443	$ 458,119,623	$ 523,734,979
Plan fiduciary net position							
Contributions—employer	$ 11,863,726	$ 11,519,708	$ 10,659,281	$ 9,824,717	$ 9,187,420	$ 8,113,319	$ 7,586,365
Contributions—member	11,931,102	11,519,708	10,659,281	9,827,760	9,188,781	8,113,319	7,586,362
Net investment income (loss)	(50,241,335)	46,166,835	33,795,088	50,166,728	(18,715,945)	43,085,572	16,802,274
Benefit payments, including refunds of member contributions	(36,268,077)	(33,997,369)	(32,108,873)	(30,600,302)	(28,863,766)	(27,443,693)	(26,467,256)
Administrative expense	(679,519)	(603,645)	(619,135)	(555,763)	(554,484)	(563,078)	(477,252)
Net change in plan fiduciary net position	(63,394,103)	34,605,237	22,385,642	38,663,140	(29,757,994)	31,305,439	5,030,493
Plan fiduciary net position—beginning	374,533,245	339,928,008	317,542,366	278,879,226	308,637,220	277,331,781	272,301,291
Plan fiduciary net position—ending (b)	$ 311,139,142	$ 374,533,245	$ 339,928,008	$ 317,542,366	$ 278,879,226	$ 308,637,220	$ 277,331,784
Employer's net pension liability—ending (a) – (b)	$ 256,318,041	$ 155,336,246	$ 176,737,274	$ 179,444,905	$ 198,361,217	$ 149,482,403	$ 246,403,195
Plan fiduciary net position as a percentage of the total pension liability	54.8%	70.7%	65.8%	63.9%	58.4%	67.4%	53.0%
Covered-payroll, as of December 31	$ 126,830,000	$ 116,866,751	$ 112,984,469	$ 111,746,539	$ 107,017,146	$ 102,844,614	$ 102,378,550
Employer's net pension liability as a percentage of covered payroll	202.1%	132.9%	156.4%	160.6%	185.4%	145.3%	240.7%

Notes to Schedule:

This schedule is designed to show information for 10 years. However, until a full 10-year trend is compiled, the Plan will present information for those years for which information is available.

Legislative and administrative changes: The contribution rate for all participants and the City increased to 10.25% on December 26, 2021. The contribution rate is tied to the Actuarially Determined Contribution (ADC) rate as determined by the Plan's actuary in the annual valuation.

Changes of Assumptions: The mortality tables changed from RP-2000 Fully Generational in 2021 to PUB-2010 with ages set forward 2 years for males and 1 year for females using Projection Scale MP-2021 in 2022. In addition the inflation rate increased from 2.25% in 2021 to 2.5% in 2022. Finally, the annual payroll growth rate decreased from 4% in 2021 to 3.5% in 2022.

See report of independent auditors.

Spokane Employees' Retirement System
Schedule of Employer's Contributions

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	$ 11,700,545	$ 12,457,475	$ 11,527,854	$ 11,078,489	$ 10,044,342	$ 9,765,949	$ 9,853,762	$ 9,069,276	$ 8,292,066	$ 8,237,317
Contributions in relation to the actuarially determined contribution	11,863,726	11,519,708	10,659,281	9,824,717	9,187,420	8,113,319	7,586,362	7,398,945	6,822,279	6,715,376
Contribution deficiency (excess)	$ (163,181)	$ 937,767	$ 868,573	$ 1,253,772	$ 856,922	$ 1,652,630	$ 2,267,400	$ 1,670,331	$ 1,469,787	$ 1,521,941
Covered-payroll	$ 115,743,668	$ 115,197,080	$ 109,325,959	$ 106,213,157	$ 102,082,444	$ 98,343,261	$ 91,955,903	$ 89,684,182	$ 86,139,886	$ 86,650,013
Contributions as a percentage of covered payroll	10.25%	10.00%	9.75%	9.25%	9.00%	8.25%	8.25%	8.25%	7.92%	7.75%

See report of independent auditors.

Spokane Employees' Retirement System
Schedule of Employer's Contributions

Valuation date: December 31, 2022

Actuarially determined contribution rates are calculated as of December 31, of the end of the fiscal year in which

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	In accordance with the following table based on service:

Years of Service	Annual Increase
<1	10.0%
1	9.0%
2	8.0%
3	7.0%
4	6.0%
5	5.0%
6	4.0%
7-11	3.5%
12-18	3.0%
19+	2.5%

Investment rate of return	7.5%, net of pension plan investment expense
Retirement age	In accordance with the following table based on age:

Age	Retirement Probability
<50	0.0%
50	10.0%
51-53	4.0%
54-59	5.0%
60	10.0%
61	15.0%
62	20.0%
63	15.0%
64	20.0%
65-66	25.0%
67	40.0%
68	25.0%
69	33.0%
70	45.0%
71	25.0%
72	45.0%
73	30.0%
74	15.0%
75+	100.0%

Mortality	Pub-2010 Table for General Employees/Retirees with ages set forward 2 years for males and 1 year for females using Projection Scale MP-2021

See report of independent auditors.

Spokane Employees' Retirement System

Schedule of Investment Returns

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Annual money-weighted rate of return, net of investment expense	-13.50%	13.67%	11.47%	18.35%	-6.27%	15.40%	6.70%	-0.94%	5.34%	18.89%

See report of independent auditors.

Additional Supplementary Information

Spokane Employees' Retirement System
Schedule of Administrative Expenses
Years Ended December 31, 2022 and 2021

	2022 Budget	**2022 Actual**	2021 Actual
Personnel services			
Salaries and wages	$ 329,825	**$ 329,354**	$ 311,201
Personnel benefits	96,560	**97,465**	88,085
Administrative income	(10,000)	**(15,226)**	(15,226)
Total personnel services	416,385	**411,593**	384,060
Supplies			
Office supplies	1,000	**342**	127
Publications	250	**-**	-
Postage	2,000	**1,234**	2,143
Software (non-capitalized)	200	**314**	106
Minor equipment	500	**285**	638
Other	1,000	**158**	119
Total supplies	4,950	**2,333**	3,133
Other services and charges			
State audit charges	15,000	**14,099**	12,433
Professional services	175,000	**153,667**	131,621
Travel	15,000	**2,256**	-
Registration and schooling	14,500	**575**	500
Other dues, subscriptions and memberships	2,500	**1,611**	1,899
Printing	2,500	**1,734**	2,546
Depreciation/amortization	-	**17,649**	17,649
Other miscellaneous charges	2,200	**2,111**	667
Total other services and charges	226,700	**193,702**	167,315
Interfund (IF) payments for services			
IF centralized purchasing	9,733	**7,027**	313
IF centralized accounting	2,136	**2,737**	1,764
IF My Spokane	1,125	**966**	885
IF risk management	571	**571**	607
IF workers' compensation	123	**123**	134
IF reprographics	5,262	**11,050**	3,899
IF IT	46,237	**46,112**	38,532
IF IT replacement	3,305	**3,305**	3,003
Total interfund services	68,492	**71,891**	49,137
TOTAL ADMINISTRATIVE EXPENSES, NET OF ADMINISTRATIVE INCOME	$ 716,527	**$ 679,519**	$ 603,645

See report of independent auditors.

Spokane Employees' Retirement System
Schedule of Investment Expenses
Year Ended December 31, 2022

Investment services		
Bridge City Capital LLC	$	21,361
Champlain Small Cap Fund LLC		81,619
Principal Real Estate Investors LLC		108,644
Sterling Capital Management LLC		108,567
		320,191
Investment consulting		
Hyas Group, LLC		125,596
Custodial services		
U.S. Bank		53,817
TOTAL INVESTMENT EXPENSES	$	499,604

Mutual fund and limited partnership fees are not reflected in this schedule; instead, these investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

MOSSADAMS

Report of Independent Auditors 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*

The Board of Administration
Spokane Employees' Retirement System

We have audited, in accordance with the 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 Spokane Employees Retirement System (the Plan) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Plan's financial statements, and have issued our report thereon dated May 30, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 entity'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Moss Adams LLP

Spokane, Washington
May 30, 2023