Texas Municipal Retirement System

2019 Financial Statements and System and Organization Controls (SOC) Audit Results
June 25-26, 2020

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.
Agenda

• 2019 Audit Results
• Required Governance Communications
• Data Analytics Overview
• Financial Highlights
2019 Audit Results
2019 Audit Results – Financial Statements

• Independent Auditors’ Report – Unmodified “clean” opinion that the financial statements are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

• Limited procedures were performed, and no opinion rendered, on management’s discussion and analysis, required supplementary information, and the Introductory, Investment, Actuarial, and Statistical sections.

• Limited procedures were performed, and an “in relation to” opinion was rendered on the other supplemental schedules.
2019 Audit Results – Schedule of Changes in Fiduciary Net Position by Participating Municipality

- Independent Auditors’ Report - Unmodified “clean” opinion that the fiduciary net position and the changes in fiduciary net position in the Schedule of Changes in Fiduciary Net Position by Participating Municipality are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
- Unmodified “in relation to” opinion was issued on the individual employer information presented in the Schedule.
2019 Audit Results – System Organization and Controls (SOC) Report

• Independent Auditor’s Report – Unmodified “clean” opinion that the controls implemented by TMRS were fairly presented, adequately designed, and operating effectively to meet the stated control objectives for the period May 1, 2019 through April 30, 2020.
2019 Audit Results – SOC Report

• Business Process
  – Control Objective #1 - Census Reporting
    ◊ No exceptions noted.
  – Control Objective #2 – Contributions
    ◊ No exceptions noted.
  – Control Objective #3 - Income Allocation
    ◊ No exceptions noted.
  – Control Objective #4 - Fund Balances
    ◊ No exceptions noted.
  – Control Objective #5 - Distributions
    ◊ No exceptions noted.
2019 Audit Results – SOC Report

• Information Technology
  – Control Objective #6 - System Maintenance
    ◊ No exceptions noted.
  – Control Objective #7 - Application Maintenance
    ◊ No exceptions noted.
  – Control Objective #8 - Logical Access
    ◊ No exceptions noted.
  – Control Objective #9 - Backups
    ◊ No exceptions noted.
  – Control Objective #10 – Physical Access
    ◊ No exceptions noted.
Required Governance Communications
Required Governing Body Communications

- Significant accounting policies
  - No new accounting standards implemented
- Financial statement disclosures
  - No particularly sensitive disclosures
- No audit adjustments or passed audit adjustments
- Management judgments and accounting estimates
  - Valuation of alternative investments
- Management was very cooperative and professional during the audit process
- No disagreements with management
Required Governing Body Communications (continued)

• Management did not consult with other accountants on the application of GAAP or GAAS
• No major issues were discussed with management prior to retention
• Management Representations were provided
Data Analytics Overview
## Data Analysis Methodology

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Identify engagement objectives and client needs</td>
<td>Discuss known risks and weaknesses</td>
<td>Have conversations with the organization to understand system detail</td>
<td>Ensure proper import</td>
<td>Continuously interpret results and compare them with your expectations</td>
<td>Provide impactful results to client</td>
</tr>
<tr>
<td>Understand the client’s systems</td>
<td>Identify risks by carefully considering the internal control environment and management's tone at the top</td>
<td>Planning the data extraction</td>
<td>Completeness testing</td>
<td>Corroborate results to identified risks</td>
<td>Document procedures and results</td>
</tr>
<tr>
<td>Match data analytic capabilities to objectives</td>
<td>Conduct meetings with management to identify risks</td>
<td>Prepare the data request list</td>
<td>Normalize data and prepare for analysis</td>
<td>Identify anomalies</td>
<td></td>
</tr>
<tr>
<td>Understand professional guidance</td>
<td>Rank risks from high to low</td>
<td>Assist/monitor client data extraction if necessary</td>
<td>Design analytics to address identified risk and accomplish objectives</td>
<td>Continuously reassess risk and improve procedures</td>
<td></td>
</tr>
</tbody>
</table>
Data Analytics Overview

- Pension Benefit Payments & Refunds
  - Technical data analysis of 2018 and 2019 benefit payments
  - Searched for significant annuity payment swings
  - Performed various fraud-specific tests such as review of duplicate bank accounts, duplicate names, duplicate payees, and duplicate annuity numbers
  - Test of persons both receiving a benefit and actively contributing
  - Review for large annuity payments after the 1st payment
  - Number of individual payments tested:
    ◊ 2018 – 730,223
    ◊ 2019 – 765,662
Data Analytics Overview (Continued)

- Pension Benefit Payments & Refunds (continued)
  - Review for payments exceeding IRS limits
- Pension Contributions
  - Technical data analysis of 2018 and 2019 contributions
  - Review of contribution receipts exceeding IRS limits
  - Recalculated employee contributions based on reported salary
    - Reviewed results by city and member
  - Number of individual contribution receipts tested:
    - 2018 – 1,338,081
    - 2019 – 1,365,123
Data Analytics Conclusions

- Reconciled contribution and benefit data to general ledger
- Expectations for contributions and benefits were met
- No identified anomalies unresolved
- Staff displayed a strong understanding of underlying data
Financial Highlights
Financial Highlights

<table>
<thead>
<tr>
<th>Summary Net Position (in millions)</th>
<th>12/31/2019</th>
<th>12/31/2018</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments, at fair value</td>
<td>$31,871.2</td>
<td>$27,973.6</td>
<td>$3,897.6</td>
<td>13.9 %</td>
</tr>
<tr>
<td>Cash, receivables and other</td>
<td>479.5</td>
<td>778.6</td>
<td>(299.1)</td>
<td>(38.4)</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>8.5</td>
<td>9.1</td>
<td>(0.6)</td>
<td>(6.6)</td>
</tr>
<tr>
<td>Total assets</td>
<td>32,359.2</td>
<td>28,761.3</td>
<td>3,597.9</td>
<td>12.5</td>
</tr>
<tr>
<td>Due to custodial/depository banks</td>
<td>5.5</td>
<td>103.2</td>
<td>(97.7)</td>
<td>(94.7)</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>539.9</td>
<td>974.6</td>
<td>(434.7)</td>
<td>(44.6)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>545.4</td>
<td>1,077.8</td>
<td>(532.4)</td>
<td>(49.4)</td>
</tr>
<tr>
<td>Net Position Restricted for Pensions</td>
<td>$31,813.8</td>
<td>$27,683.6</td>
<td>$4,130.2</td>
<td>14.9 %</td>
</tr>
</tbody>
</table>

- Fluctuations in receivables and other liabilities are due to changes in open trades receivable and payable from year-to-year (timing of trade activity near year-end).
## Financial Highlights (continued)

<table>
<thead>
<tr>
<th>Summary Change in Net Position (in millions)</th>
<th>2019</th>
<th>2018</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Additions:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer contributions</td>
<td>$930.2</td>
<td>$881.5</td>
<td>$48.7</td>
<td>5.5 %</td>
</tr>
<tr>
<td>Plan member contributions</td>
<td>453.6</td>
<td>427.8</td>
<td>25.8</td>
<td>6.0</td>
</tr>
<tr>
<td>Net investment income/(loss)</td>
<td>4,279.5</td>
<td>(858.1)</td>
<td>5,137.6</td>
<td>598.7</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>5,663.3</td>
<td>451.2</td>
<td>5,212.1</td>
<td>1,155.2</td>
</tr>
<tr>
<td><strong>Deductions:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>1,445.5</td>
<td>1,335.2</td>
<td>110.3</td>
<td>8.3</td>
</tr>
<tr>
<td>Refunds</td>
<td>62.7</td>
<td>64.3</td>
<td>(1.6)</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Administrative &amp; other costs</td>
<td>24.9</td>
<td>17.5</td>
<td>7.4</td>
<td>42.3</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>1,533.1</td>
<td>1,417.0</td>
<td>116.1</td>
<td>8.2</td>
</tr>
<tr>
<td>Net increase/(decrease) in net position</td>
<td>4,130.2</td>
<td>(965.8)</td>
<td>5,096.0</td>
<td>527.6</td>
</tr>
<tr>
<td>Net position - beginning of year</td>
<td>27,683.6</td>
<td>28,649.4</td>
<td>(965.8)</td>
<td>(3.4)</td>
</tr>
<tr>
<td><strong>Net position - end of year</strong></td>
<td>$31,813.8</td>
<td>$27,683.6</td>
<td>$4,130.2</td>
<td>14.9 %</td>
</tr>
</tbody>
</table>
Financial Highlights (continued)

- The increase in employer and plan member contributions from 2018 to 2019 is due to the increase in covered payroll from $6.44 billion in 2018 to $6.79 billion in 2019. City membership also increased over the period, totaling 888 and 887 at December 31, 2019 and 2018, respectively.

- The change in net investment income/(loss) from 2018 to 2019 primarily results from the change in the net appreciation/(depreciation) in the fair value of investments during the periods ($3.8 billion appreciation and $1.4 billion depreciation during the years ended 2019 and 2018, respectively). During the two years ending 2019, TMRS' investment portfolio was impacted by the market volatility experienced during that period, primarily in the public equities asset class.

- The increase in retirement benefits is due primarily to growth in the number of retirement accounts each year (69,625 and 66,051 in 2019 and 2018, respectively), as well as annuity increases (COLAs) that may be applied each year.
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