

# **Employee Retirement System of the City of Lawton, Oklahoma**

## *Financial Statements*

June 30, 2022 and 2021  
(With Independent Auditors' Report Thereon)



**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**FINANCIAL STATEMENTS**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Pension Commissioners  
Employee Retirement System of  
the City of Lawton, Oklahoma

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the accompanying financial statements of the Employee Retirement System of the City of Lawton, Oklahoma (the "System"), a component unit of the City of Lawton, Oklahoma, which comprise the statements of fiduciary net position as of June 30, 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 financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the System, as of June 30, 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.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Emphasis of Matter**

As discussed in Note 7 to the financial statements, the System has engaged its actuary to conduct a study to verify that all past pension benefit calculations are in accordance with the City of Lawton Code. Interim results of the study indicate significant over and under pension benefit payments have been made by the System. As such, legal counsel has been retained to assist the System in developing a corrective action plan. It is at least reasonably possible that the actuary's final study results and the corrective action plan could have a material effect on the fiduciary net position of the System; however, the final amounts cannot currently be reasonably estimated. Our opinion is not modified with respect to this matter.

(Continued)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our 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 generally accepted auditing standards 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 generally accepted auditing standards 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

(Continued)

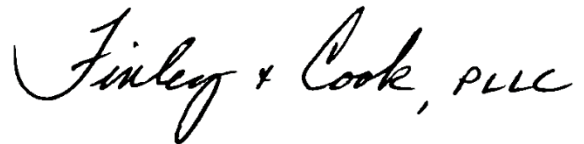
**INDEPENDENT AUDITORS' REPORT, CONTINUED**

**Required Supplementary Information**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-7 and the schedule of changes in the City of Lawton's net pension liability, the schedule of the City of Lawton's net pension liability, the schedule of contributions from the City of Lawton, the schedule of investment returns, and the related notes to required supplementary information on pages 23–27 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2024, on our consideration of the 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 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 System'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 System's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma  
January 24, 2024

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's discussion and analysis (MD&A) of the Employee Retirement System of the City of Lawton, Oklahoma's (the "System") financial performance provides an overview of the financial activities and funding condition for the fiscal years ended June 30, 2022 and 2021.

The System is classified as a Pension Trust Fund and is reported as a fiduciary component unit of the City of Lawton (the "City"). The Pension Trust Fund accounts for the activities of the System, which accumulates resources for pension benefit payments to qualified retirees and future retirees. Since the System is also reported as a fiduciary component unit of the City, the financial statements and related note disclosures are also incorporated into the City's Annual Financial Report and presented as fiduciary funds in the City's basic financial statements. The accompanying basic financial statements of the System are reported on an accrual basis of accounting and are reported in conformity with accounting principles generally accepted in the United States. Under the accrual basis of accounting, revenues are recognized when earned instead of when actually received and expenses are recognized when incurred instead of when actually paid.

Please review the MD&A in conjunction with the basic financial statements.

### **Financial Highlights**

- The fiduciary net position restricted for pensions for fiscal year 2022 decreased by \$12,739,163, (or 19%) compared to 2021. All of the fiduciary net position restricted for pensions are available to meet the System's ongoing obligations to members and their beneficiaries.
- Employer contributions for fiscal year 2022 increased by \$391,188 (or 21%) compared to 2021.
- The net investment income for fiscal year 2022 decreased by \$22,775,873 (or 159%) compared to 2021, due mainly to unfavorable market conditions.
- Benefit payments increased by \$458,282 (or 8%) during fiscal year 2022 compared to fiscal year 2021.
- During fiscal year 2022, there were 272 retirees receiving benefits and 235 active employees paying into the System.

### **Using the Annual Financial Report**

The basic financial statements reflect the activities of the System and are reported in the statements of fiduciary net position, the statements of changes in fiduciary net position, and the notes to the financial statements. All activities are recorded using the accrual basis of accounting and the economic resources measurement focus. The accrual basis of accounting recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs. Transactions are recognized when earned and incurred regardless of the timing of cash flows.

The statements of changes in fiduciary net position of the System focus on changes in economic resources during the period. Fiduciary net position (total assets less total liabilities) is used as a practical measure of economic resources. Accordingly, the System's statements of changes in fiduciary net position include all transactions and events that increase or decrease fiduciary net position, such as additions and deductions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### Statements of Fiduciary Net Position

The statements of fiduciary net position present the financial position of plan assets and liabilities by investment and accounting categories. The excess of assets over liabilities is reported as "fiduciary net position restricted for pensions." Over time, increases or decreases in fiduciary net position restricted for pensions may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. The following condensed comparative summary of the statements of fiduciary net position as of June 30, 2022 and 2021, demonstrates that the System is primarily focused on the cash, receivables, investments, liabilities, and fiduciary net position restricted for pensions.

	<u>2022</u>	<u>2021</u>	<u>% Increase (Decrease)</u>
Cash and cash equivalents	\$ 1,548,902	1,414,267	9.52%
Receivables	128,897	146,262	(11.87)%
Investments	<u>53,180,337</u>	<u>65,598,728</u>	(18.93)%
 Total assets	 <u>54,858,136</u>	 <u>67,159,257</u>	 (18.32)%
 Liabilities	 <u>808,239</u>	 <u>370,197</u>	 118.33%
 Fiduciary net position restricted for pensions	 <u>\$ 54,049,897</u>	 <u>66,789,060</u>	 (19.07)%

At June 30, 2022, cash and cash equivalents increased by \$134,635 (or 10%). Due to unfavorable market conditions, investments decreased by \$12,418,391 (or 19%) during the fiscal year ended June 30, 2022.

### Statements of Changes in Fiduciary Net Position

The statements of changes in fiduciary net position itemize additions, deductions, and changes in fiduciary net position restricted for pensions. The statements of changes in fiduciary net position demonstrate how the System's assets have changed during the fiscal years ended June 30, 2022 and 2021. The following condensed comparative summary of the statements of changes in fiduciary net position reflect the activities of the System in regard to employee and employer contributions, net investment income, benefits paid, refunds, administrative expenses, and the changes in fiduciary net position restricted for pensions.

**MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED**

**Statements of Changes in Fiduciary Net Position, Continued**

	<u>2022</u>	<u>2021</u>	<u>% Increase (Decrease)</u>
<b>Additions:</b>			
Contributions:			
Employer	\$ 2,218,871	1,827,683	21.40%
Employee	813,285	875,487	(7.10)%
Net investment (loss) income	(8,457,801)	14,318,072	(159.07)%
Other income	820	-	100.00%
Total additions	<u>(5,424,825)</u>	<u>17,021,242</u>	(131.87)%
<b>Deductions:</b>			
Benefits paid to retirees and beneficiaries	5,977,651	5,519,369	8.30%
Refunds of contributions	1,314,397	1,137,682	15.53%
Administrative expenses	<u>22,290</u>	<u>22,181</u>	0.49%
Total deductions	<u>7,314,338</u>	<u>6,679,232</u>	9.51%
Changes in fiduciary net position	<u>\$ (12,739,163)</u>	<u>10,342,010</u>	223.18%

Collections of employee and employer retirement contributions, as well as earnings from investments, provide the monies necessary to finance retirement benefits and cover administrative expenses. Contributions, net investment (loss) income, and other income, income totaled \$(5,424,825) during the fiscal year ended June 30, 2022, which is a \$22,446,067 (or 132%) decrease in total additions from what was reported the previous fiscal year.

Employer contributions are based on a percentage of active employees’ pay and increased \$391,188 (or 21%) in fiscal year 2022; the City’s contribution rate was 10%. The amount of employee contributions decreased 7% in fiscal year 2022. Contribution levels are established by the Lawton City Code, Section 17-3-4-339 and may be amended by the Board of Pension Commissioners (the “Board”), with confirmation by the City Council. Effective June 27, 2011, covered employees are required to contribute 6.30% of their base salary or wages to the System. The City contributed an additional 10% of contributions in both fiscal years 2022 and 2021.

Net investment (loss) income was \$(5,424,825) for fiscal year 2022, or a \$22,775,873 decrease, due mainly to unfavorable market conditions. Interest was \$21,226 (or 17%) lower during fiscal year 2022. Dividends were \$1,455,478 (or 48%) higher during fiscal year 2022. Net depreciation in the fair value of investments was \$24,194,195 (or 209%) lower during fiscal year 2022.

The primary deductions of a retirement system include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement system. The benefits paid increased by \$458,282 (or 8%) during fiscal year 2022, mainly due to an increase in retirees. Refunds typically represent a return of a nonvested portion of an employee’s contribution made to the retirement system, which varies from year to year. Administrative expenses for the year ended June 30, 2022, were \$109 (or 1%) higher when compared to the previous fiscal year.



## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### **Analysis of Financial Position and Changes in Fiduciary Net Position**

In order to analyze the System's financial position and changes in fiduciary net position during the reporting periods, the following topics are presented: membership, funding, total pension liability, and asset allocation.

#### **Membership**

As of July 1, the System's members were as follows:

	<u>2022</u>	<u>2021</u>
Retirees and beneficiaries receiving benefits	272	267
Terminated employees entitled to benefits not yet received	40	35
Current active employees	<u>235</u>	<u>269</u>
Total members	<u>547</u>	<u>571</u>

#### **Funding**

Funds are derived from the excess of additions over deductions and are accumulated to meet future benefit obligations to retirees and beneficiaries. This accumulated balance is referred to as the fiduciary net position restricted for pensions in the statements of fiduciary net position and the statements of changes in fiduciary net position presented in the financial statements. In addition to the basic financial statements and various note disclosures, this report also contains required supplementary information.

#### **Total Pension Liability**

The Total Pension Liability (TPL) is the actuarial accrued liability measured using the Entry Age Normal Cost Method.

Under the *Entry Age Normal Cost Method*, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings (or service) of the individual between the entry age and assumed exit ages. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. It is equal to the theoretical asset accumulation had the plan always been in effect, all actuarial assumptions were perfectly met, and the employer contributed the normal cost each year.

The *Net Pension Liability* is the TPL less the market value of plan assets (referred to as the Fiduciary Net Position).

**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

**Total Pension Liability, Continued**

As of the June 30, 2022 and 2021, respective valuation dates, based on the actuarial assumptions specified, these values were:

	<u>2022</u>	<u>2021</u>
Total pension liability:		
Active employees	\$ 34,211,628	35,086,274
Retirees and beneficiaries	<u>62,038,988</u>	<u>60,920,709</u>
	<u>\$ 96,250,616</u>	<u>96,006,983</u>
 The System's fiduciary net position	 <u>\$ 54,049,897</u>	 <u>66,789,060</u>
 The City of Lawton's net pension liability	 <u>\$ 42,200,719</u>	 <u>29,217,923</u>
 The System's fiduciary net position as a percentage of the total pension liability	 <u>56.16%</u>	 <u>69.57%</u>
 Valuation date:	<u>July 1, 2022</u>	<u>July 1, 2021</u>
Actuarial cost method:	Entry age normal	Entry age normal
Amortization method:	Level dollar	Level dollar
Remaining amortization period:	30 years (from July 1, 2022)	30 years (from July 1, 2020)
Asset valuation method:	Fair market value	Fair market value
Actuarial assumptions:		
Interest rate:	6.75%	6.75%
Pay increases:	4.25%	4.25%
Mortality:	Pub 2010G 40A/60B projected with MP2021	Pub 2010G 40A/60B projected with MP2020
Retirement rates:	City of Lawton experience	City of Lawton experience
Turnover:	Oklahoma municipal experience	Oklahoma municipal experience
COLA's:	No provision has been made for automatic post-retirement cost-of-living adjustments.	No provision has been made for automatic post-retirement cost-of-living adjustments.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **Asset Allocation**

On November 15, 2007, both the investment objectives and the money manager were changed. On October 25, 2012, the target asset allocation was changed from 65% bonds and 35% equities to 50% each (with a 20% acceptable variance). At the 3rd quarter meeting on April 28, 2016, the benchmark was updated to match the Portfolio Asset Allocation Target Objectives listed within the System's Statement of Investment Policy, Objectives, Guidelines and Goals. The changes to the Performance Goals section of the Pension Trust Investment Policy provides two options of evaluation criteria of investment portfolio performance by using either the actuarial interest rate assumption of 6.75% or a benchmark based on a blend of 16% Russell 1000 Value, 16% Russell 1000 Growth, 6% MSCI AC World ex US gross, 4% Russell Midcap Value, 4% Russell Midcap Growth, 2% Russell 2000 Value, 2% Russell 2000 Growth, 43% Barclays Aggregate Bond, 5% HFRI Fund Weighted composite, and 2% CITI 90 Day Treasury, and by also adding an additional measurement time period of 10 years.

The allocation of the portfolio on June 30, 2022, was 66% equities with the remaining 34% in bonds, alternatives, and cash. This allocation was within the permissible range. The annual dollar-weighted return for the year ended June 30, 2022, was (13.71)%, the 5-year return was 5.85%, and the return from November 15, 2007, through June 30, 2022, was 5.37%. The beginning balance on November 15, 2007, was \$34,679,131; the account has had net withdrawals of \$19,661,848 and net investment earnings of \$37,961,967 through June 30, 2022. The portfolio's (13.87)% time-weighted return underperformed both the actuarial 6.75% and the System's benchmark (12.43)% time-weighted return for fiscal year 2022. All returns noted above are net of fees.

### **Market Environment and Results**

The investment market conditions were negative for equity markets, with sanguine results in the first half of the fiscal year followed by a volatile second half. The bond market represented by the Barclays Aggregate was negative, down 10.29%, with the 10-year treasury yields increasing from 1.45% to 2.98%. The portfolio's performance of (13.87)% underperformed compared to both the actuarial 6.75% and the System's benchmark (12.43)%. The fiduciary net position restricted for pensions of the System decreased from \$66.79 million to \$54.05 million from July 1, 2021, to June 30, 2022.

### **Major Initiatives**

The Board worked closely with the City's Finance and Human Resources Departments, as well as the City Attorney's office, in an effort to address the unfunded liabilities and the reduction in the percentage funded with the City's Pension Program. The Board hired a firm that specializes in pension actuaries to present several alternatives to address the projected shortfalls in the System. The firm presented several alternatives which required either increased contributions or decreased benefits in order to make the System solvent long-term. The Board reviewed the alternatives with each of the departments mentioned above and decided on a plan that incorporates both an increase in contributions, as well as a decrease in benefits for all new-hires joining the City's general employee group beginning July 1, 2011. During the year ended June 30, 2017, a defined contribution plan was established for employees hired after June 30, 2017, and the defined benefit pension plan was closed to new entrants effective July 1, 2017. The approval of these System changes will help ensure that the System will remain solvent for many years into the future.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **Major Initiatives, Continued**

The Board recommended that each employee be more informed about the status of their individual pension account. Therefore, the Human Resources Department agreed to budget for and hire the same firm who performed the actuary studies to prepare a statement for each individual employee regarding the status of their pension. These statements would be provided once a year to the employee either at the end of the fiscal year or at the end of the calendar year.

### **Contacting the System's Financial Management**

This financial report is designed to provide citizens, taxpayers, members, and others with a general overview of the System's finances and to show accountability for money it receives, disburses, and is entrusted with. Questions concerning any data provided in this report or requests for additional information should be directed to the City of Lawton, 212 S.W. 9th Street, Lawton, Oklahoma 73501.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**STATEMENTS OF FIDUCIARY NET POSITION**

<i>June 30,</i>	<i>2022</i>	<i>2021</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,548,902	1,414,267
Receivables:		
Employer's contributions	58,067	61,023
Employees' contributions	37,182	41,282
Accrued interest	33,648	43,957
Total receivables	<u>128,897</u>	<u>146,262</u>
Investments, at fair value:		
U.S. government securities and agencies	845,615	1,561,307
Exchange-traded and closed-end funds	8,927,375	8,608,716
Mutual funds	42,819,920	54,567,462
Other investments	587,427	861,243
Total investments, at fair value	<u>53,180,337</u>	<u>65,598,728</u>
Total assets	<u>54,858,136</u>	<u>67,159,257</u>
<b>Liabilities</b>		
Accounts payable	<u>808,239</u>	<u>370,197</u>
Total liabilities	<u>808,239</u>	<u>370,197</u>
<b>Fiduciary net position restricted for pensions</b>	<b><u>\$ 54,049,897</u></b>	<b><u>66,789,060</u></b>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

<i>Years Ended June 30,</i>	<i>2022</i>	<i>2021</i>
<b>Additions:</b>		
Contributions:		
Employer	\$ 2,218,871	1,827,683
Employee	<u>813,285</u>	<u>875,487</u>
Total contributions	<u>3,032,156</u>	<u>2,703,170</u>
Investment income:		
Net (depreciation) appreciation in fair value of investments	(12,645,202)	11,548,993
Interest	104,276	125,502
Dividends	<u>4,462,305</u>	<u>3,006,827</u>
Total investment (loss) income	(8,078,621)	14,681,322
Less investment expense	<u>(379,180)</u>	<u>(363,250)</u>
Net investment (loss) income	<u>(8,457,801)</u>	<u>14,318,072</u>
Other income	<u>820</u>	<u>-</u>
Total additions	<u>(5,424,825)</u>	<u>17,021,242</u>
<b>Deductions:</b>		
Benefits paid to retirees and beneficiaries	5,977,651	5,519,369
Refunds of contributions	1,314,397	1,137,682
Administrative expenses	<u>22,290</u>	<u>22,181</u>
Total deductions	<u>7,314,338</u>	<u>6,679,232</u>
<b>Changes in fiduciary net position</b>	<b>(12,739,163)</b>	<b>10,342,010</b>
Fiduciary net position restricted for pensions:		
Beginning of year	<u>66,789,060</u>	<u>56,447,050</u>
End of year	<u><b>\$ 54,049,897</b></u>	<u><b>66,789,060</b></u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022 and 2021**

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**(1) DESCRIPTION OF THE SYSTEM**

On November 1, 1970, the City of Lawton, Oklahoma (the "City") established the Employee Retirement System of the City of Lawton, Oklahoma (the "System") and a related Pension Trust to accumulate funds to provide retirement benefits for eligible employees of the City. The System, a single-employer defined benefit pension plan, was restated in its entirety by City Ordinance Number 692 on November 1, 1975. The last amendment was signed on June 30, 2011. The defined benefit pension plan was closed to new entrants effective July 1, 2017. The System is administered by the Board of Pension Commissioners (the "Board"). The Commissioners are appointed by the City for 5-year terms.

During the year ended June 30, 2017, the City established a defined contribution plan for employees hired after June 30, 2017. With the creation of the defined contribution plan, employees hired after June 30, 2017, are prohibited from participating in the City's defined benefit pension plan. Employees currently enrolled in the defined benefit pension plan will continue to participate and will not be allowed to also participate in the defined contribution plan. The City will continue to fund the defined benefit pension plan and also fund the defined contribution plan. The City is required to make an additional contribution to the defined benefit pension plan equal to 6.50% of the actual earnings of all full-time employees hired by the City after July 1, 2017.

The following provides only general information. Participants should refer to the Pension Trust Agreement, City Ordinance Number 692, and the amendments in City Ordinance Number 90.26, Section 17-339 for a more complete description of the System's provisions.

**Covered Employees**

Covered employees include all full-time employees of the City, excluding persons compensated on a contractual or fee basis, and police officers or firefighters eligible and participating in the State of Oklahoma Police or Fire Pension systems. At June 30, 2022, there were 272 retirees and beneficiaries receiving benefits, 235 current active members, and 40 terminated employees entitled to benefits not yet received.

See Independent Auditors' Report.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) DESCRIPTION OF THE SYSTEM, CONTINUED**

**Benefits**

Benefits are established by the Lawton City Code, Section 17-3-4-339 and may be amended by the Board, with confirmation by the City Council. The amount of the monthly benefit payable to a member who retires on or after July 1, 1990, and prior to July 1, 1998, is equal to 2.00% of the member's average final monthly compensation multiplied by the member's total number of years of creditable service. The amount of the monthly benefit payable to a member hired before June 30, 2011, and who retires on or after July 1, 1998, is equal to 2.30% of the member's average final monthly compensation multiplied by the member's total number of years of creditable service. The amount of the monthly benefit payable to a member hired on or after June 30, 2011, and prior to July 1, 2017, who retires after June 30, 2011, is equal to the sum of 2.30% of the member's compensation paid during each plan year, divided by 12. Upon retirement on an early retirement date, the member may receive a monthly benefit which will commence on the next day after their last day of City service and be payable on the last day of each month thereafter during their lifetime. The amount of each monthly payment shall be computed in the same manner as for a normal retirement benefit, reduced by 5/12% for each complete month by which the member's early retirement date precedes their normal retirement date. Disability retirement benefits for a member who prior to eligibility for normal retirement becomes totally and permanently disabled may also be paid subject to certain requirements. The System is evaluated every 2 years for the possibility of cost-of-living increases.

**Funding Policy**

The City's funding policy requires that the System be funded by meeting the accruing normal cost of the System (that is, the cost attributable to the service rendered by participants during the year) and amortize the unfunded actuarial liability of the System over a period of 30 years.

**Vesting**

Participants are immediately vested in their contributions plus earnings calculated at 2% over the U.S. Treasury bill rate, not to exceed 6% per annum thereon. Vesting in the City's contribution portion is based on years of service, with a participant becoming 100% vested after 10 years of credited service.

**Deferred Vested Benefit**

A participant of any age who has completed at least 10 years of creditable service is entitled to a monthly benefit determined in the same manner as early retirement for consideration of service and compensation to date of termination. The benefit is deferred to a normal retirement date, but a reduced benefit may be paid within the 10-year period preceding normal retirement date. The reduction is the same as for early retirement. A participant entitled to the deferred vested benefit may elect to receive a lump sum amount equal to that employee's contribution accumulation plus earnings thereon and the City's contribution portion in lieu of the monthly benefit.

See Independent Auditors' Report.



EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The System's financial statements are prepared using the accrual basis of accounting. Participant contributions are recognized in the period in which the contributions are due. Employer contributions to the System are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The financial statements are in conformity with provisions of the Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25* (GASB 67).

**Recent Accounting Pronouncements**

*Governmental Accounting Policies Adopted During Current Year*

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The System adopted GASB 87 on July 1, 2021, for the June 30, 2022, reporting year, which did not have a significant impact on the System's financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 directs that interest costs incurred during the construction period of an asset be expensed in the period incurred. GASB 89 changes previous guidance regarding capitalized construction costs where such costs were typically included in the capitalized cost of the asset constructed and depreciated over time. The System adopted GASB 89 on July 1, 2021, for the June 30, 2022, reporting year, which did not have a significant impact on the System's financial statements.

See Independent Auditors' Report.

EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements, Continued

*Governmental Accounting Policies Adopted During Current Year, Continued*

In January 2020, GASB issued Statement No. 92, *Omnibus 2020* (GASB 92). GASB 92 addresses a variety of topics and includes specific provisions relating to (1) interim financial reporting requirements of GASB 87 and Implementation Guide 2019-3, (2) reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan, (3) the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits, (4) the applicability of certain requirements of GASB 84 to postemployment benefit arrangements, (5) measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, (6) reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, (7) reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, and (8) terminology used to refer to derivative instruments. The requirements of GASB 92 are effective upon issuance in relation to the provisions impacting GASB 87 and Implementation Guide 2019-3 and are effective for periods beginning after June 15, 2021, for all other provisions. The System adopted GASB 92 on July 1, 2021, for the June 30, 2022, reporting year, which did not have a significant impact on the System's financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates Activities* (GASB 93). GASB 93 addresses various accounting and other issues arising from the result of the replacement of an interbank offered rate (IBOR) by 1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment 2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate 3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable 4) removing the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap 5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap and 6) clarifying the definition of reference rate, as it is used in Statement 53, as amended. The System adopted GASB 93 on July 1, 2021, for the June 30, 2022, reporting year, which did not have a significant impact on the System's financial statements.

See Independent Auditors' Report.

EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

*Governmental Accounting Policies for Future Adoption*

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB 91). GASB 91 provide a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, (3) related note disclosures. The System will adopt GASB 91 on July 1, 2022, for the June 30, 2023, reporting year. The System does not expect GASB 91 to have a significant impact on the financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). GASB 94 defines and provides financial reporting requirements for Public-Private or Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA). A PPP is an arrangement between a government (transferor) and an operator (governmental or non-governmental) to provide public services by conveying the right to control or use a nonfinancial or infrastructure asset for a period of time in an exchange-like transaction. An APA is a similar arrangement where the operator may also be compensated for services that include designing, constructing, financing and maintaining a nonfinancial asset for a period of time. The System will adopt GASB 94 on July 1, 2022, for the June 30, 2023, reporting year. The System does not expect GASB 94 to have a significant impact on the financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides accounting and financial reporting guidance for the governmental end users of subscription-based information technology arrangements (SBITAs). GASB 96 defines an SBITA, establishes right-to-use assets and corresponding liabilities, and provides capitalization criteria and the note disclosures required for SBITAs. The System will adopt GASB 96 on July 1, 2022, for the June 30, 2023, reporting year. The System has not yet determined the impact that GASB 96 will have on the financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022* (GASB 99). GASB 99 is a technical omnibus statement that addresses issues or concerns from previous statements that were discovered during implementation and application of those statements. GASB 99 covers several topics including but not limited to, financial guarantees, derivatives, leases, non-monetary transactions, future revenue pledges and terminology updates. The System adopted the sections that were effective immediately for the June 30, 2022, reporting year. The remaining sections will be adopted by the System for either the June 30, 2023, or the June 30, 2024, reporting year, as required by GASB 99. The System does not expect GASB 99 to have a significant impact on the financial statements.

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EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Recent Accounting Pronouncements, Continued**

*Governmental Accounting Policies for Future Adoption, Continued*

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100). GASB 100 proscribes accounting and financial reporting for accounting changes and error corrections to the financial statements. GASB 100 defines what constitutes an accounting change versus a change in accounting principle or error correction and outlines the appropriate note disclosures in each circumstance. The System will adopt GASB 100 on July 1, 2023, for the June 30, 2024, reporting year. The System does not expect GASB 100 to have a significant impact on the financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 outlines the definition of compensated absences and sets forth the accounting and financial reporting for compensated absence liabilities. GASB 101 outlines that leave accrued should be measured using the employees pay rate at the financial statement date and that certain salary related payments, such as Social Security and Medicare, should be included in such measurement. The System will adopt GASB 101 on July 1, 2024, for the June 30, 2025, reporting year. The System does not expect GASB 101 to have a significant impact on the financial statements.

**Investment Valuation and Income Recognition**

The System's investments in U.S. government securities and agencies, exchange-traded and closed-end funds, and mutual funds are stated at fair value, which is determined by quoted market prices. The System's other investments in judgments are valued at original judgment value, less principal collected, since no quoted market price is available. Purchases and sales of securities are recorded on a trade date basis, while interest income is recorded on the accrual basis.

The System presents in the statements of changes in fiduciary net position, the net (depreciation) appreciation in the fair value of its investments, which includes realized gains and losses and unrealized gains and losses on those investments.

See Independent Auditors' Report.

EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Use of Estimates**

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States requires the administrator to make significant estimates and assumptions that affect the reported amounts of fiduciary net position restricted for pensions at the date of the financial statements and the actuarial information included in Exhibits I–V included in the required supplementary information (RSI) as of the benefit information date, the changes in fiduciary net position during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Risks and Uncertainties**

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect amounts reported in the statements of fiduciary net position.

Contributions to the System and the actuarial information included in the RSI are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

**Receivables**

At June 30, 2022 and 2021, the System had no long-term receivables. All the receivables reflected in the statements of fiduciary net position are expected to be fully collected and available for use by the System in its operations. As such, no allowance for any uncollectible portions is considered necessary.

**Investments**

*Investment Allocation Policy*—The Board's investment allocation policy will currently maintain approximately 50% of assets in equity instruments, 40% domestic and 10% international, including mutual funds, exchange-traded funds, and closed-end funds; and 50% of assets in cash and fixed income, including Federal Deposit Insurance Corporation (FDIC) insured bonds, U.S. government bonds, U.S. government agency bonds, mutual funds, exchange-traded funds, and closed-end funds (with a 20% acceptable variance). The allocation of the portfolio on June 30, 2022, was 66% equities, with the remaining 34% in bonds, alternatives, and cash. This allocation was within the permissible range.

See Independent Auditors' Report.

EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

*Significant Investment Policy Changes Made During the Year*—No significant investment policy changes were made during the year ended June 30, 2022 or 2021.

*Rate of Return*—For the years ended June 30, 2022 and 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (13.71)% and 26.69%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested as defined by GASB 67.

*Method Used to Value Investments*—As a key part of the System’s activities, it holds investments that are measured and reported at fair value on a recurring basis. Accounting principles generally accepted in the United States establish a fair value hierarchy for the determination and measurement of fair value. This hierarchy is based on the type of valuation inputs needed to measure the fair value of an asset. The hierarchy generally is as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets.

Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.

Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

**Income Tax Status**

The Internal Revenue Service has determined and informed the System by a letter dated August 25, 2016, that the System is designed in accordance with applicable sections of the Internal Revenue Code.

**Date of Management’s Review of Subsequent Events**

Management has evaluated subsequent events through January 24, 2024, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

See Independent Auditors’ Report.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(3) CONTRIBUTIONS**

The contribution rate for employees through June 26, 2011, was 5.30%. Contribution levels are established by the Lawton City Code, Section 17-3-4-339 and may be amended by the Board, with confirmation by the City Council. The City's contribution rate was 9.00% from July 1, 2010, to June 26, 2011. Effective June 27, 2011, covered employees are required to contribute 6.30% of their base salary or wages to the System and the City is required to contribute 10.00%. In addition, the City is required to make an additional contribution to the System at a rate of 6.50% of the actual earnings of each full-time employee hired by the City on or after July 1, 2017. Contributions are subject to certain limitations. Administrative costs are paid by the System.

In addition to the City's required contributions as prescribed in the Lawton City Code, the System's actuary provides an annual actuarial determined contribution calculation to assist the City maintain the funded status of the System. Refer to the Exhibit III of the required supplementary information for the schedule of the actuarially determined contributions in comparison to the actual contributions remitted by the City.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**(4) DEPOSITS AND INVESTMENTS**

**Deposit Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System requires that financial institutions pledge collateral securities to secure the deposits of the System in each institution. At June 30, 2022 and 2021, the System did not have any deposits with financial institutions that were uninsured and uncollateralized.

The System maintains a money market fund reported with cash and cash equivalents that is neither insured or collateralized. As such, the full balance is considered at risk in the event of failure of the counterparty. As of June 30, 2022 and 2021, the money market balance was \$339,081 and \$618,904, respectively.

**Investment Custodial Credit Risk**

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the System's investments in government agencies are held by the investment's counterparty, in the name of the System. The System's investments in U.S. government obligations are not considered to have credit risk. The credit rating for the government agency investments was AA+ as assigned by the credit rating agency Standard & Poor's.

See Independent Auditors' Report.

EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) DEPOSITS AND INVESTMENTS, CONTINUED

Concentrations of Credit Risk

The System places no limit on the amount the System can invest in any one type of issuer. For disclosure purposes, investments in mutual funds, exchange-traded funds, and closed-end funds are excluded. There were no investments by issuer that accounted for 5% or more of the System’s total fiduciary net position at June 30, 2022 or 2021.

The net change in fair value of investments shown in the financial statements takes into account all changes in fair value that occurred during the year. Fair value amounts for individual investments fluctuate based on changes in the market interest rates available to investors.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates. Investments in equity instruments are not subject to investment interest rate risk. The System’s investments with maturity dates at June 30 were as follows:

	S&P Rating	Years				Total Fair Value
		<u>Less than 1</u>	<u>1 or More Less than 5</u>	<u>5 or More Less than 10</u>	<u>10 or More</u>	
<u>2022</u>						
U.S. government securities and agencies:						
FNMA	AA+	-	-	-	845,615	845,615
		\$ -	-	-	845,615	845,615
<u>2021</u>						
U.S. government securities and agencies:						
FHLMC	AA+	\$ -	-	-	440,207	440,207
FNMA	AA+	-	-	-	1,121,100	1,121,100
		\$ -	-	-	1,561,307	1,561,307

See Independent Auditors’ Report.



EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) DEPOSITS AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value

	Amounts Measured at <u>Fair Value</u>	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2022</u>				
U.S. government securities and agencies	\$ 845,615	-	845,615	-
Exchange-traded and closed-end funds	8,927,375	8,927,375	-	-
Mutual funds	42,819,920	42,819,920	-	-
Other investments	<u>587,427</u>	<u>-</u>	<u>-</u>	<u>587,427</u>
Total investments measured at fair value	<u>\$ 53,180,337</u>	<u>51,747,295</u>	<u>845,615</u>	<u>587,427</u>
<u>2021</u>				
U.S. government securities and agencies	\$ 1,561,307	-	1,561,307	-
Exchange-traded and closed-end funds	8,608,716	8,608,716	-	-
Mutual funds	54,567,462	54,567,462	-	-
Other investments	<u>861,243</u>	<u>-</u>	<u>-</u>	<u>861,243</u>
Total investments measured at fair value	<u>\$ 65,598,728</u>	<u>63,176,178</u>	<u>1,561,307</u>	<u>861,243</u>

See Independent Auditors' Report.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(4) DEPOSITS AND INVESTMENTS, CONTINUED**

**Other Investments**

Other investments of \$587,427 and \$861,243 as of June 30, 2022 and 2021, respectively, consisted of judgments rendered against the City which have been purchased by the System. The System purchases the judgments directly from the claimants. Since there is no quoted market price available for valuing these judgments, they are valued in the financial statements at original purchase price less principal collected to date and are considered level 3 investments. One-third of the original judgment amount is payable, with interest, each year. The post judgment interest rate was 5.25% as of June 30, 2022 and 2021.

As the judgments are paid over a 3-year period and bear reasonable interest, their carrying value approximates market value and no adjustments in value have been made.

The System expects to collect the June 30, 2022, outstanding balance over the following years:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 312,638	35,542
2024	208,522	15,769
2025	<u>66,267</u>	<u>3,479</u>
	<u>\$ 587,427</u>	<u>54,790</u>

The judgments are considered investments, as the collection is based on tax assessments and interest is paid on the outstanding balance.

**(5) NET PENSION LIABILITY OF THE CITY OF LAWTON**

The components of the net pension liability for the City at June 30 were as follows:

	<u>2022</u>	<u>2021</u>
Total pension liability	\$ 96,250,616	96,006,983
The System's fiduciary net position	<u>54,049,897</u>	<u>66,789,060</u>
The City's net pension liability	<u>\$ 42,200,719</u>	<u>29,217,923</u>
The System's fiduciary net position as a percentage of the total pension liability	<u>56.16%</u>	<u>69.57%</u>

See Independent Auditors' Report.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(5) NET PENSION LIABILITY OF THE CITY OF LAWTON, CONTINUED**

*Actuarial Assumptions*—The total pension liability was determined by an actuarial valuation as of July 1, 2022 and 2021, using the following actuarial assumptions, applied to all prior periods included in the measurement:

	<u>2022</u>	<u>2021</u>
Inflation:	2.50%	2.50%
Salary increases:	4.25%	4.25%
Investment rate of return, net of investment expenses:	6.75%	6.75%
Mortality:	Mortality rates were based on the Pub2010G 40A/60B table fully projected using the MP2021 table. The new table is based on the first large scale study of public employee mortality made by the Society of Actuaries.	Mortality rates were based on the Pub2010G 40A/60B table fully projected using the MP2020 table. The new table is based on the first large scale study of public employee mortality made by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (2.50%) and deducting expenses. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	62.50%	6.00%
International equity	7.50%	6.20%
Fixed income	20.00%	2.75%
Government securities	10.00%	2.25%

See Independent Auditors’ Report.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(5) NET PENSION LIABILITY OF THE CITY OF LAWTON, CONTINUED**

The discount rate used to measure the total pension liability was rounded down to 6.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be 10% of pay with the possibility of supplementary contributions. Effective July 1, 2017, new-hires participate in a defined contribution plan, the City will match 3.50% of employee contributions and make contributions of 6.50% of their pay to the System.

If no additional contribution is made by the City, the closed group projection shows a depletion date at year 100. The blended rate of return is the same as the long-term rate of return of 6.75%.

2022

The following presents the net pension liability of the City as of June 30, 2022, calculated using the discount rate of 6.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Total pension liability	\$ 106,793,068	96,250,616	87,357,161
The System's fiduciary net position	<u>54,049,897</u>	<u>54,049,897</u>	<u>54,049,897</u>
The City's net pension liability	<u>\$ 52,743,171</u>	<u>42,200,719</u>	<u>33,307,264</u>

2021

The following presents the net pension liability of the City as of June 30, 2021, calculated using the discount rate of 6.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Total pension liability	\$ 106,492,373	96,006,983	87,162,906
The System's fiduciary net position	<u>66,789,060</u>	<u>66,789,060</u>	<u>66,789,060</u>
The City's net pension liability	<u>\$ 39,703,313</u>	<u>29,217,923</u>	<u>20,373,846</u>

See Independent Auditors' Report.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(6) TERMINATION OF THE SYSTEM**

In the event that the System is terminated, after payment of all debts, expenses, and obligations of the System, any remaining cash and/or property shall be distributed on a pro rata basis to the System's participants based upon each participant's contributions.

**(7) CONTINGENCIES**

**Computation of Retiree Pension Benefit Payments**

Since inception of the System, the computations for retiree pension benefits have been manually calculated as an internal operation of the defined benefit plan. During 2021, the Board engaged the System actuary to conduct a study to verify the completeness, accuracy, and consistency of the pension benefit calculations for retirees currently receiving benefits in relation to the City Code establishing the benefit computation criteria. In addition to the study, the System's actuary was engaged to develop a software system to streamline the computation of future pension benefit payments and reduce the opportunity for human error. While the study is ongoing, interim results have indicated deviations in certain benefit calculations have created significant over and under benefit payments distributed by the System that in the aggregate could be material. As a result of the study's interim information, the Board has retained legal counsel specializing in employee benefits to work with the Board, the System's management, and the System's actuary to develop a corrective action plan for the over and under pension benefit payments. Due to the study being incomplete and the corrective action plan not yet established, the System has not accrued any amounts related to the over and under pension benefit payments in the accompanying financial statements as of June 30, 2022 or 2021.

**Contribution Rate Shortage**

The System's actuary estimated that a City contribution of 28.04% of participant payroll would be needed to meet the statutory funding standard for the year ending June 30, 2023. The City's contribution rate of 10% is short of this standard. Increased employee contributions could also be used to replace some of the deficiency. The growing net pension liability illustrates that there is little chance that the City's contribution rate and the employee contribution rate can maintain the System over the lifetime of the participant group. Future contribution requirements will become higher and higher if the contribution rate is not increased. Benefits for employees hired after June 30, 2011, were changed from a final average pay formula to a career average pay formula using the 2.30% multiplier.

**(8) TRANSACTIONS WITH THE CITY**

Employer contributions received from the City were \$2,218,871 and \$1,827,683 for the years ended June 30, 2022 and 2021, respectively, and are shown on the statements of changes in fiduciary net position. Employer contributions receivable from the City were \$58,067 and \$61,023 as of June 30, 2022 and 2021, respectively, and are shown on the statements of fiduciary net position. Other investments of \$587,427 and \$861,243 as of June 30, 2022 and 2021, respectively, consisted of judgments rendered against the City which have been purchased by the System.

See Independent Auditors' Report.

**INDEPENDENT AUDITORS' 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**

Board of Pension Commissioners  
Employee Retirement System of  
the City of Lawton, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Employee Retirement System of the City of Lawton, Oklahoma (the "System"), a component unit of the City of Lawton, Oklahoma, which comprise the statement of fiduciary net position as of June 30, 2022, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2024. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in a separate letter dated January 24, 2024, that we consider to be a significant deficiency.

(Continued)

**INDEPENDENT AUDITORS' 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, CONTINUED**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System'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 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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma  
January 24, 2024

**SUPPLEMENTARY INFORMATION  
REQUIRED BY  
GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
STATEMENT NO. 67**



**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**SCHEDULE OF CHANGES IN THE CITY OF LAWTON'S  
NET PENSION LIABILITY**

*Last 9 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>									
Service cost	\$ 1,304,294	1,725,914	2,090,994	2,343,985	2,361,162	2,372,993	2,355,200	2,377,346	2,421,405
Interest	6,496,917	6,407,109	6,167,640	6,002,422	5,855,694	5,597,236	5,404,378	5,344,966	5,130,920
Changes of benefit terms	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(431,818)	(389,128)	(55,151)	(532,724)	(1,255,352)	1,113,082	23,241	(2,103,217)	620,866
Changes in assumptions	166,288	-	1,736,113	-	-	-	-	-	-
Benefit payments, including refunds of member contributions	<u>(7,292,048)</u>	<u>(6,657,051)</u>	<u>(6,391,905)</u>	<u>(5,366,000)</u>	<u>(4,787,760)</u>	<u>(5,254,309)</u>	<u>(4,925,671)</u>	<u>(4,738,899)</u>	<u>(5,002,127)</u>
Net change in total pension liability	243,633	1,086,844	3,547,691	2,447,683	2,173,744	3,829,002	2,857,148	880,196	3,171,064
Total pension liability—beginning	<u>96,006,983</u>	<u>94,920,139</u>	<u>91,372,448</u>	<u>88,924,765</u>	<u>86,751,021</u>	<u>82,922,019</u>	<u>80,064,871</u>	<u>79,184,675</u>	<u>76,013,611</u>
Total pension liability—ending (a)	<u>\$ 96,250,616</u>	<u>96,006,983</u>	<u>94,920,139</u>	<u>91,372,448</u>	<u>88,924,765</u>	<u>86,751,021</u>	<u>82,922,019</u>	<u>80,064,871</u>	<u>79,184,675</u>
<b>The System's fiduciary net position</b>									
Contributions—City of Lawton	\$ 2,218,871	1,827,683	1,936,533	1,996,777	2,073,681	2,095,587	2,068,439	2,021,594	2,144,570
Contributions—members	813,285	875,487	1,009,330	1,139,575	1,265,354	1,322,450	1,296,400	1,279,749	1,311,923
Net investment (loss) income	(8,457,801)	14,318,072	2,949,888	3,216,656	4,720,788	6,115,017	(812,694)	853,379	5,604,962
Benefit payments, including refunds of member contributions	<u>(7,292,048)</u>	<u>(6,657,051)</u>	<u>(6,391,905)</u>	<u>(5,366,000)</u>	<u>(4,787,760)</u>	<u>(5,254,309)</u>	<u>(4,925,671)</u>	<u>(4,733,825)</u>	<u>(5,002,127)</u>
Administrative expense	(22,290)	(22,181)	(42,101)	(40,210)	(43,984)	(29,687)	(31,020)	(25,012)	(26,618)
Other income	<u>820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in the System's fiduciary net position	(12,739,163)	10,342,010	(538,255)	946,798	3,228,079	4,249,058	(2,404,546)	(604,115)	4,032,710
The System's fiduciary net position—beginning	<u>66,789,060</u>	<u>56,447,050</u>	<u>56,985,305</u>	<u>56,038,507</u>	<u>52,810,428</u>	<u>48,561,370</u>	<u>50,965,916</u>	<u>51,570,031</u>	<u>47,537,321</u>
The System's fiduciary net position—ending (b)	<u>\$ 54,049,897</u>	<u>66,789,060</u>	<u>56,447,050</u>	<u>56,985,305</u>	<u>56,038,507</u>	<u>52,810,428</u>	<u>48,561,370</u>	<u>50,965,916</u>	<u>51,570,031</u>
The City of Lawton's net pension liability (a) - (b)	<u>\$ 42,200,719</u>	<u>29,217,923</u>	<u>38,473,089</u>	<u>34,387,143</u>	<u>32,886,258</u>	<u>33,940,593</u>	<u>34,360,649</u>	<u>29,098,955</u>	<u>27,614,644</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

SCHEDULE OF THE CITY OF LAWTON'S NET PENSION LIABILITY

Last 9 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 96,250,616	96,006,983	94,920,139	91,372,448	88,924,765	86,751,021	82,922,019	80,064,871	79,184,675
The System's fiduciary net position	<u>54,049,897</u>	<u>66,789,060</u>	<u>56,447,050</u>	<u>56,985,305</u>	<u>56,038,507</u>	<u>52,810,428</u>	<u>48,561,370</u>	<u>50,965,916</u>	<u>51,570,031</u>
The City of Lawton's net pension liability	<u>\$ 42,200,719</u>	<u>29,217,923</u>	<u>38,473,089</u>	<u>34,387,143</u>	<u>32,886,258</u>	<u>33,940,593</u>	<u>34,360,649</u>	<u>29,098,955</u>	<u>27,614,644</u>
The System's fiduciary net position as a percentage of the total pension liability	<u>56.16%</u>	<u>69.57%</u>	<u>59.47%</u>	<u>62.37%</u>	<u>63.02%</u>	<u>60.88%</u>	<u>58.56%</u>	<u>63.66%</u>	<u>65.13%</u>
Covered payroll	<u>\$ 12,090,650</u>	<u>13,070,842</u>	<u>15,656,197</u>	<u>18,753,645</u>	<u>19,969,869</u>	<u>21,452,987</u>	<u>20,903,375</u>	<u>20,580,295</u>	<u>20,593,547</u>
The City of Lawton's net pension liability as a percentage of covered payroll	<u>349.04%</u>	<u>223.54%</u>	<u>245.74%</u>	<u>183.36%</u>	<u>164.68%</u>	<u>158.21%</u>	<u>164.38%</u>	<u>141.39%</u>	<u>134.09%</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

SCHEDULE OF CONTRIBUTIONS FROM THE CITY OF LAWTON

Last 10 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 2,840,682	3,665,355	3,665,807	3,586,534	3,590,720	3,669,120	3,271,543	3,179,977	3,225,198	3,182,857
The City of Lawton's contribution	<u>2,218,871</u>	<u>1,829,055</u>	<u>1,936,533</u>	<u>1,996,777</u>	<u>2,073,681</u>	<u>2,095,587</u>	<u>2,068,439</u>	<u>2,021,594</u>	<u>2,144,570</u>	<u>2,239,853</u>
Contribution deficiency	<u>\$ 621,811</u>	<u>1,836,300</u>	<u>1,729,274</u>	<u>1,589,757</u>	<u>1,517,039</u>	<u>1,573,533</u>	<u>1,203,104</u>	<u>1,158,383</u>	<u>1,080,628</u>	<u>943,004</u>
Covered payroll*	<u>\$ 12,090,650</u>	<u>13,070,842</u>	<u>15,656,197</u>	<u>18,753,645</u>	<u>19,969,869</u>	<u>21,452,987</u>	<u>20,903,375</u>	<u>20,580,295</u>	<u>20,593,547</u>	<u>21,615,172</u>
Contributions as a percentage of covered payroll	<u>18.35%</u>	<u>13.99%</u>	<u>12.37%</u>	<u>10.65%</u>	<u>10.38%</u>	<u>9.77%</u>	<u>9.90%</u>	<u>9.82%</u>	<u>10.41%</u>	<u>10.36%</u>

\*Covered payroll is based on a projection of pay using a snapshot census at the beginning of the year. Contributions measured as a percent of covered payroll will not precisely match the statutory

See Independent Auditors' Report.  
See accompanying notes to required supplementary information.

EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense, as defined by GASB 67	<u>(13.71)%</u>	<u>26.69%</u>	<u>5.37%</u>	<u>5.88%</u>	<u>9.20%</u>	<u>13.15%</u>	<u>(1.88)%</u>	<u>1.54%</u>	<u>12.36%</u>	<u>8.04%</u>

See Independent Auditors' Report.  
See accompanying notes to required supplementary information.

**EMPLOYEE RETIREMENT SYSTEM OF  
THE CITY OF LAWTON, OKLAHOMA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2022**

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The information presented in the required supplementary schedules was determined as part of an actuarial valuation by independent enrolled actuaries (Dean Actuaries, LLC). Additional information as of the July 1, 2022, valuation follows:

	<u>Assumptions</u>
Actuarial cost method:	Entry age normal
Asset valuation method:	Fair market value
Amortization method:	Level dollar
Remaining amortization:	30 years
Actuarial assumptions:	
Investment rate of return:	6.75%
Projected salary increases*:	4.25% per year (3% general increases and 1.25% allowance for promotions)
Cost-of-living adjustments:	None
Mortality:	Pub2010G 40A/60B projected with MP2021
Retirement rates:	City of Lawton experience
Turnover:	Oklahoma municipal experience

\*Includes inflation at 2.50%.

See Independent Auditors' Report.