



Financial Statements
June 30, 2012

Employee Retirement System of The City of Lawton, Oklahoma

Employee Retirement System of The City of Lawton, Oklahoma

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June 30, 2012 and 2011

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Independent Auditor's Report

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

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) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Employee Retirement System of the City of Lawton, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets held in trust for benefits of the Employee Retirement System of the City of Lawton, Oklahoma, as of June 30, 2012, and the changes in its net assets held in trust for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012 on our consideration of the Employee Retirement System of the City of Lawton, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, and schedule of employer contributions on pages 3 through 8 and 17 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 17, 2012

Management's discussion and analysis (MD&A) of the Employee Retirement System of the City of Lawton, Oklahoma (the Plan) financial performance provides an overview of the financial activities and funding condition for the fiscal year ending June 30, 2012.

The Plan is classified as a Pension Trust Fund and is reported as a component unit of the City of Lawton. The Pension Trust Fund accounts for the activities of the Plan, which accumulates resources for pension, benefit payments to qualified retirees and future retirees. Since the Plan is also reported as a component unit of the City of Lawton, the financial statements and related note disclosures are also incorporated into the City of Lawton, Oklahoma's Annual Financial Report. The accompanying basic financial statements of the Plan are reported on an accrual basis of accounting and are reported in conformity with generally accepted accounting principles. 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 net assets held in trust for pension benefits for fiscal year 2012 increased by \$127,676 (or .29%). All of the net assets held in trust for pension benefits are available to meet the Plan's ongoing obligations to plan members and their beneficiaries.
- Employer contributions for fiscal year 2012 increased by \$193,376 (or 10.1%) compared to 2011.
- The net investment income for fiscal year 2012 decreased by \$4,852,560 (or 87.1%) compared to 2011 due to a decrease in the net appreciation in the fair value of investments that occurred during fiscal year 2012 compared to fiscal year 2011.
- Benefit payments increased by \$163,190 (or 5.3%) during fiscal year ended June 30, 2012.
- During fiscal year 2012, there were 206 retirees and 558 general employees paying into the system or receiving benefits.

Using the Annual Financial Report

The basic financial statements reflect the activities of the Plan and are reported in the Statements of Plan Net Assets, the Statements of Changes in Plan Net Assets and the Notes to Financial Statements. All activities are recorded using an accrual basis of accounting and the economic resource 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 operating statement of the Plan focuses on changes in economic resources during the period. Net assets (total assets less total liabilities) are used as a practical measure of economic resources. Accordingly, the Plan's operating statement includes all transactions and events that increase or decrease net assets, such as additions and deductions.

Employee Retirement System of The City of Lawton, Oklahoma
Management's Discussion and Analysis
June 30, 2012

Statement of Plan Net Assets

The Statement of Plan Net Assets shows the financial position of plan assets and liabilities by investment and accounting categories. The excess of assets over liabilities is reported as "net assets held in trust for pension benefits". Over time, increases or decreases in net assets held in trust for pension benefits may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating. The following condensed comparative summary of the Statement of Plan Net Assets as of June 30, 2012 and 2011, demonstrates that the Plan is primarily focused on the cash, receivables, investments, liabilities and net assets held in trust for pension benefits.

	2012	2011	% Increase/ Decrease
Cash	\$ 1,544,885	\$ 303,203	409.5%
Receivables	188,561	246,656	-23.6%
Investments	43,155,893	44,213,086	-2.4%
Total Assets	44,889,339	44,762,945	0.3%
Total Liabilities	(81)	(1,363)	-94.1%
Net assets held in trust for pension benefits	<u>\$ 44,889,258</u>	<u>\$ 44,761,582</u>	0.3%

At June 30, 2012, cash increased by \$1,241,682 (or 409.5%). This increase was due to the sale of investments, and as result, investments at fair value decreased by \$1,057,193 (or 2.4%) during the fiscal year ended June 30, 2012.

Statement of Changes in Plan Net Assets

The Statement of Changes in Plan Net Assets itemizes additions, deductions and net change in assets held in trust for pension benefits. The Statement of Changes in Plan Net Assets demonstrates how the Plan assets have increased (decreased) during the fiscal year ended June 30, 2012. The following condensed comparative summary of the Statement of Changes in Net Assets reflects the activities of the Plan in regards to employer and employee contributions, net investment income, benefits paid, administration expenses, refunds and the net increase (decreased) in net assets held in trust for pension benefits.

Employee Retirement System of The City of Lawton, Oklahoma
Management's Discussion and Analysis
June 30, 2012

	<u>2012</u>	<u>2011</u>	<u>% Increase/ Decrease</u>
Addition			
Contributions			
Members	\$ 1,343,379	\$ 1,132,662	18.6%
Employer	2,113,599	1,920,223	10.1%
Net investment income	<u>721,306</u>	<u>5,573,866</u>	-87.1%
Total additions	<u>4,178,284</u>	<u>8,626,751</u>	-51.6%
Deductions			
Benefits	3,216,615	3,053,425	5.3%
Refunds	803,816	574,564	39.9%
Administrative expenses	<u>30,177</u>	<u>31,006</u>	-2.7%
Total deductions	<u>4,050,608</u>	<u>3,658,995</u>	10.7%
Net increase in net assets held in trust for pension benefits	<u>\$ 127,676</u>	<u>\$ 4,967,756</u>	-97.4%

Collections of employer and employee retirement contributions, as well as earnings from investments, provide the reserves necessary to finance retirement benefits and cover administrative expense. Contributions and net investment income totaled \$4,178,284 during the fiscal year ending June 30, 2012, which is a \$4,448,467 (or 51.57%) decrease in total additions from what was reported the previous fiscal year.

Employer contributions are based on a percentage of an employee's pay and increased \$193,376 (or 10.1%) in 2012; the city contribution rate was 10%. The amount of employee contributions increased 18.6% in fiscal year 2012, due an increase of one percent (1%) in the required employee contribution rate. Contribution levels are established by the Lawton City Code Section 17-3-4-339 and may be amended by the Commissioners appointed by the mayor with confirmation by the city council. Effective June 27, 2011, covered employees are required to contribute 6.3% of their base salary or wages to the Plan in FY2012 compared to 5.3% in FY 2011. The City contributes an additional 10.0% of contributions in FY 2012 compared to 9% in FY 2011.

Net investment income was \$721,306 for fiscal year 2012, or a \$4,852,560 decrease in fiscal year 2012 due mainly to the depreciation in fair value of investments of \$(484,040). Interest received was \$19,676 (or 2.2%) higher during fiscal year 2012. Dividends received were \$189,237 (or 71.8%) higher during fiscal year 2012. Net appreciation in fair value of investments was \$5,116,144 (or 110.45%) lower during fiscal year 2012. During FY 2011 the plan recognized \$5,389,844 of unrealized gain on investments.

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 \$163,190 (or 5.3%) during fiscal year 2012, mainly due to an increased number of retirees receiving benefits. Administration expenses, as of June 30, 2012 were \$30,177, or \$829, lower when compared to the

previous fiscal year. Refunds typically represent a return of a nonvested portion of the employee's contribution made to the retirement system which varies from year to year.

Analysis of Financial Position and Results of Operations

In order to analyze the Plan's financial position and results of operations during the reporting periods, the following topics are presented: plan membership, funding and reserves, actuarial assumptions and methods, and asset allocation.

Plan Membership

As of July 1, 2011, the Plan members from the actuary report are as follows:

Retirees and beneficiaries receiving benefits	192
Terminated employees entitled to benefits not yet received	-
Current active employees	
Fully vested	189
Nonvested	376
Total members	757

Funding and Reserves

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 net assets held in trust for pension benefits in the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets presented in the financial statements. In addition to the basic financial statements and various note disclosures, defined benefit plans are also required to provide two schedules of long-term actuarial data. The two required supplementary information schedules are the Schedule of Funding Progress and the Schedule of Employer Contributions, which are presented immediately following the notes to the financial statements.

The Schedule of Funding Progress compares the actuarial value of assets, which is based on the fair value of assets, to the actuarial accrued liability, as of the last day of the fiscal year. The Schedule of Funding Progress is presented for the past ten fiscal years. The actuary determines the actuarial accrued liability. It is a measure of the present value of actuarial accrued liabilities estimated to be payable in the future to current retirees, beneficiaries and employees for service earned to date. The percentage computed by dividing the actuarial value of net assets available for benefits by the actuarial accrued liability is generally referred to as the "funding ratio". This ratio provides an indication of the funding status of the Plan on a going-concern basis and generally, the greater the percentage, the stronger the retirement system. A high level of funding gives plan members a greater degree of assurance that their pension benefits are secure.

The Schedule of Funding Progress shows that the Plan has a twelve year history of being underfunded. As of June 30, 2011, the Plan is 62.5% funded. The unfunded actuarial accrued liability as a percentage of covered payroll for fiscal year ending June 30, 2011 is 121.6%. The actuarial liability was not updated for FY 2012 and the percentage is not available as of June 30, 2012.

The Schedule of Employer Contributions shows the annual required contribution and what percentage of the annual required contribution that the City of Lawton has contributed. For the fiscal years 2005-2012, contributions made by the City of Lawton have been less than the annual required contribution. For the fiscal year ending June 30, 2012, the City contributed 66.4% of the annual required contribution.

Actuarial Assumptions and Methods

The July 1, 2011 actuarial valuation is used to determine the level of annual required contributions (ARC) based on actuarial assumptions approved by the Plan Board of Trustees. The Entry Age Normal Cost Method was utilized by the Plan's Actuary to calculate the Plan's Actuarial Accrued Liability. The actuarial value of assets is compared to the actuarial accrued liability, resulting in either an unfunded actuarial accrued liability or a surplus. This difference is allocated on a level basis over the future earnings of members who are still employed as of the valuation date. The actuarial accrued liability is an actuarial rather than an accounting liability, therefore is not reported as a liability in the financial statements. Actuarial gains and losses are reflected in the actuarially determined annual required contribution rate. The main actuarial assumptions and methods include:

- The assumed rate of return on investment was 6.75%.
- The mortality rates are taken from the RP-2000p Mortality Tables fully projected for Cohort Mortality Improvement.
- No provision has been made for automatic post-retirement cost of living adjustments. (This is consistent with plan provisions, which do not provide automatic post-retirement cost of living adjustments.)
- The actuarial value of assets is based on the market value of assets.

Asset Allocation

On November 15, 2007 both the investment objectives and the money manager were changed. The Investment Performance Goal from the Investment Policy is Portfolio Performance shall be benchmarked by a blend of 65% Barclays Aggregate Bond Index and 35% SP 500 Total Return Index. The portfolio should earn (net of fees) at least 100% of the benchmark for at least 2 of the preceding time periods of 1 year, 3 year, 5 year. For the fiscal year ended June 30, 2012 the portfolio met the performance goal.

For the fiscal year ending June 30, 2012, net portfolio appreciation was \$562,499 or 1.40%. Since November 15, 2007 when the new policy went into effect, through the fiscal year ending June 30, 2012, net portfolio appreciation was \$8,500,855 or 7.41% per year. The cumulative rate of return was 18.02% with an average rate of return of 3.65% per year. The Asset Allocation on June 30, 2012 was in the middle of the upper end of the equity permissible range at 60% bonds and 40% equities.

Market environment and results

Investment market conditions were improved during the fiscal year ended June 30, 2011. The net assets held for pension benefits of the Plan increased from \$44.76 million to \$44.89 million from July 1, 2011 to June 30, 2012. Over the eleven-year period ended June 30, 2012, the funding ratio has varied from a low of 63.2% to a high of 88.5%; the current funding ratio of 63.2% reflects the effects of the stock market as it continues to recover in 2012, and is the lowest funding ratio in the past eleven years.

Major Initiatives

The Pension Trust Committee 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 reduction in the percent funded (which was down to 62.5%) with the City's Pension Program. The Trust hired a firm that specializes in pension actuaries to present several alternatives to address the projected shortfalls in the plan. The firm presented several alternatives which required either increased contributions or decreased benefits in order to make the plan solvent long term. The Trust reviewed the alternatives with each of the departments mentioned above and decided on a plan forward that incorporated 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. The approval of these plan changes has insured that the plan will remain solvent for many years into the future.

Most recently, the Pension Trust Committee recommended that the employees need to be more informed about the status of each individual employees 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 Retirement System's Financial Management

This financial report is designed to provide citizens, taxpayers, plan members and others with a general overview of the Plan'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 City of Lawton, 212 S.W. 9th Street, Lawton, Oklahoma 73501.

Employee Retirement System of The City of Lawton, Oklahoma
Statement of Plan Net Assets
June 30, 2012

Assets

Cash		\$ 1,544,885
Receivables		
Employer contributions		39,713
Employee contributions		26,475
Accrued interest		122,373
	Total receivables	188,561
Investments		
Investments, at fair value:		
United States government securities and agencies		22,040,940
Common stock		2,900,524
Mutual funds		16,426,158
	Investments, at book value:	1,788,271
	Other investments	1,788,271
	Total investments	43,155,893
	Total Assets	44,889,339
Liabilities and Net Assets		
Current Liabilities		
Accounts payable		81
	Total liabilities	81
Net Assets Held in Trust for Benefits (A Schedule of Funding Progress is Presented on Page 17)		\$ 44,889,258

Employee Retirement System of The City of Lawton, Oklahoma
Statement of Changes in Plan Net Assets
Year Ended June 30, 2012

Additions	
Contributions	
Employer	\$ 2,113,599
Plan participants	<u>1,343,379</u>
Total contributions	<u>3,456,978</u>
Investment income:	
Net depreciation in fair value of investments	(484,041)
Interest income	915,764
Dividends	452,542
Less: investment expenses	<u>(162,959)</u>
Net investment income	<u>721,306</u>
Total additions	<u>4,178,284</u>
Deductions	
Benefits paid to retirees	3,216,615
Refunds of contributions	803,816
Administrative expenses	<u>30,177</u>
Total deductions	<u>4,050,608</u>
Net Increase	<u>127,676</u>
Net Assets Held in Trust for Benefits	
Beginning of year	<u>44,761,582</u>
End of year	<u><u>\$ 44,889,258</u></u>

Note 1 - Organization

On November 1, 1970, the City of Lawton, Oklahoma, (the City) established the Employee Retirement System of the City of Lawton, Oklahoma (the Plan) and a related Pension Trust to accumulate funds to provide retirement benefits for eligible employees of the City. The Plan, a single-employer defined benefit pension plan, was restated in its entirety by City ordinance number 692 on November 1, 1975. The last Plan amendment was signed on July 1, 1998. The Plan is administered by a board of Pension Commissioners (the Commissioners) who are appointed by the City for five-year terms.

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 Plan's provisions.

Covered Employees

Covered employees include all full-time employees of the City, excluding persons compensated on a contractual or fees basis, police officers or fire fighters eligible and participating in the state of Oklahoma Police or Fire Pension systems. At June 30, 2012, there were 206 retirees receiving benefits and 558 current active members.

Benefits

Benefits are established by the Lawton City Code Section 17-3-4-339 and may be amended by the Commissioners appointed by the mayor with confirmation by the city council. The amount of the monthly benefit payable to a member who retires on or after July 1, 1998, is equal to 2.3% of the member's average monthly compensation multiplied by the member's total number of years of creditable service. Upon retirement on an early retirement date, the member may receive a monthly benefit which will commence on the next day after his last day of City service and be payable on the last day of each month thereafter during his lifetime. The amount of each monthly payment shall be computed in the same manner as for a normal retirement benefit, reduced by 5/15% for each complete month by which the member's early retirement date precedes his normal retirement date. Disability retirements 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 Plan is evaluated every two years for the possibility of cost of living increases.

Funding Policy

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

Vesting

Plan 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 plan participant of any age who has completed at least ten 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 ten-year period preceding normal retirement date. The reduction is the same as for early retirement. A plan 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.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan participant contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan 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 Plan.

Investment Valuation and Income Recognition

The Plan's investments in United States government securities and agencies, money markets, marketable common stocks, and cash equivalents are stated at fair value which is determined by quoted market prices. The Plan's 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 Plan presents in the statement of changes in plan net assets, the net appreciation (depreciation) in the fair value of its investments, which includes realized gains and losses and unrealized gain and losses on those investments.

Use of Estimates

The preparation of the Plan's financial statements in conformity with U.S. generally accepted accounting principles requires the Plan administrator to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the actuarial information included in Notes 5, including Funded Status and the required supplementary information (RSI) as of the benefit information date, the changes in Plan net assets during the reporting period, and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Risk and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit risk. 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 participants' account balances and amounts report in the statement of net assets available for plan benefits.

Contributions to the Plan 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.

Income Tax Status

The Internal Revenue Service has determined and informed the Plan by a letter dated August 11, 2011, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC).

Note 3 - Contributions

The contribution rate for employees through June 26, 2011 was 5.3%. Contribution levels are established by the Lawton City Code Section 17-3-4-339 and may be amended by the Commissioners appointed by the mayor with confirmation by the city council. The city contribution rate was 9.0% from July 1, 2010 to June 26, 2011. Effective June 27, 2011, covered employees are required to contribute 6.3% of their base salary or wages to the Plan and the City is required to contribute 10.0%. Contributions are subject to certain limitations. Administrative costs are paid by the Plan.

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

Note 4 - Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan requires that financial institutions pledge collateral securities to secure the deposits of the Plan in each institution.

At June 30, 2012, total bank balances of the Plan's deposits were \$1,569,226. Deposit balances up to \$250,000 in each institution are insured by the Federal Depository Insurance Corporation (FDIC). Deposit balances in excess of FDIC coverage are covered by collateral at two of the banks with whom the Plan holds deposits. Included in the Plan's total deposits were money market cash accounts of \$1,244,821, of which \$994,821 was uninsured and uncollateralized. The Plan has not suffered any losses due to bank failures. As of the date of issuance of this report, these uninsured money market cash accounts had been invested, therefore changing its risk from deposit custodial credit risk to investment custodial credit risk.

Employee Retirement System of The City of Lawton, Oklahoma

Notes to Financial Statements

June 30, 2012 and 2011

Investment Custodial Credit Risk

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan 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 Plan's investments in government agencies and common stock are held by the investment's counterparty, in the name of the Plan. The Plan'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 (S&P).

Concentrations of Credit Risk

The Plan places no limit on the amount the Plan can invest in any one type of issuer. For disclosure purposes, investments in mutual funds are excluded. Investments by issuer that account for five percent or more of the plan's total investments are listed below.

US Treasury Bill	\$ 800,000
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 6,409,365
Federal National Mortgage Association (FNMA)	\$ 9,563,717
Government National Mortgage Association (GNMA)	\$ 5,267,858

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 Plan 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 mutual funds are not subject to investment interest rate risk. The Plan's investments and their maturity date at June 30, 2012 were:

	Rating	Fair Value	Less Than One Year	1 - Years	6 - 10 Years	Thereafter
Government agency investments						
US Treasury Bill	AA+	\$ 800,000	\$ 800,000	\$ -	\$ -	\$ -
FHLMC	AA+	6,409,365	-	-	-	6,409,365
FNMA	AA+	9,563,717	-	-	72,399	9,491,318
GNMA	AA+	5,267,858	-	-	-	5,267,858
Total		<u>\$ 22,040,940</u>	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ 72,399</u>	<u>\$ 21,168,541</u>

Other Investments

Other investments of \$1,788,271 as of June 30, 2012, consist of judgments rendered against the City of Lawton, Oklahoma, which have been purchased by the Plan. The Plan 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. One-third of the original judgment amount is payable, with interest, each year. Interest rates range from 5% to 10%, depending on the date the judgment was rendered.

Note 5 - Funded Status of the Plan

The funded status of the plan as of the most recent valuation date includes the following:

Actuarial valuation date	July 1, 2011
Actuarial value of assets	\$ 44,761,581
Actuarial accrued liability (AAL)	\$ 71,637,254
Total unfunded actuarial accrued liability (UAAL)	\$ 26,875,673
Actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio)	62.5%
Annual covered payroll	\$ 22,095,022
Ratio of the unfunded actuarial liability to annual covered payroll	121.6%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

Additional information about the latest actuarial valuation date follows:

Valuation Date	July 1, 2011
Actuarial Cost Method	Entry age normal
Amortization Method	Level dollar
Remaining Amortization Period	30 years rolling
Asset Valuation method	Market
Actuarial Assumptions:	
Interest Rate	6.75%
Annual Pay Increase Assumption	4.25%
Retirement rates	Experience
Mortality	RP2000p
	Fully Projected
	For Cohort mortality
	Improvement

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liabilities for benefits.

Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Note 6 - Termination of Plan

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

Note 7 - Contingency

Also, the Plan actuary has estimated that a City contribution of 14.41% of participant payroll is needed to meet the statutory funding standard for the year ending June 30, 2012. The City contribution rate of 10.0% (effective June 27, 2011) is far short of this standard. Increased employee contributions could also be used to replace some of the deficiency. The growing unfunded actuarial liability of the Plan illustrates that there is little chance that the City contribution rate and employee contribution rate can maintain the Plan 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 2.3% multiplier.

Note 8 - Transactions with the City of Lawton, Oklahoma

Employer contributions received from the City of Lawton were \$2,113,599 for the year ended June 30, 2012 and are shown on the statement of changes in plan net assets. Employer contributions receivable from the City of Lawton were \$39,713 and are shown on the statement of plan net assets. Other investments of \$1,788,271 as of June 30, 2012, consist of judgments rendered against the City of Lawton, Oklahoma, which have been purchased by the Plan.



Required Supplementary Information
June 30, 2012

Employee Retirement System of The City of Lawton, Oklahoma

Employee Retirement System of The City of Lawton, Oklahoma
 Schedule of Funding Progress (Unaudited)
 June 30, 2012

Actuarial Valuation Date (1)	Method *	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (a - b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2011	(EAN)	\$ 44,761,581	\$ 71,637,254	\$ (26,875,673)	62.5%	\$ 22,095,022	121.6%
July 1, 2009	(EAN)	37,963,510	60,084,860	(22,121,350)	63.2%	19,845,649	111.5%
July 1, 2007	(EAN)	36,850,006	53,258,078	(16,408,072)	69.2%	18,344,200	89.4%
July 1, 2007	(PUC)	36,850,006	49,038,912	(12,188,906)	75.1%	18,344,200	66.4%
July 1, 2005	(PUC)	38,405,760	47,101,375	(8,695,615)	81.5%	15,889,024	54.7%
July 1, 2003	(PUC)	34,278,831	38,738,865	(4,460,034)	88.5%	14,583,355	30.6%

(1) Actuarial valuations are completed every two years.
 * See Notes to Required Supplementary Information

Employee Retirement System of The City of Lawton, Oklahoma
Schedule of Employer Contributions (Unaudited)
June 30, 2012

Year Ended June 30	Annual Required Contribution	Amount Contributed	Percentage Contributed
2012	\$ 3,182,857	\$ 2,113,599	66.4%
2011	2,965,333	1,920,223	64.8%
2010	2,965,333	1,717,252	57.9%
2009	2,376,870	1,628,972	68.5%
2008	2,376,870	1,553,635	65.4%
2007	1,790,694	1,412,087	78.9%

Note 1 - Changes in Actuarial Methods, Assumptions and Data

Prior to July 1, 2007, the actuarial accrued liability was reported using the Projected Unit Credit cost method (PUC). Paragraph 37 of GASB 25 requires that the actuarial cost method used for funding the plan, which is the Entry Age Normal cost method (EAN), be used for this purpose. For the July 1, 2007 valuation both cost methods are shown; the first line (EAN) is the official value. The PUC value is only shown for comparative purposes.



CPAs & BUSINESS ADVISORS

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*

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

We have audited the financial statements of the Employee Retirement System of the City of Lawton, Oklahoma as of June 30, 2012, and for the year then ended, and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Employee Retirement System of the City of Lawton, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Employee Retirement System of the City of Lawton, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures 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 Employee Retirement System of the City of Lawton, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Employee Retirement System of the City of Lawton, Oklahoma's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Employee Retirement System of the City of Lawton, Oklahoma's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Employee Retirement System of the City of Lawton, Oklahoma's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of pension commissioners, management and others within the organization and the City of Lawton, and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 17, 2012