

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

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

FINANCIAL STATEMENTS

Table of Contents

| | <u>Page</u> |
|--|-------------|
| <u>Independent Auditors' Report</u> | 1 |
| <u>Management's Discussion and Analysis</u> | I-1 |
| <u>Financial Statements:</u> | |
| Statements of Fiduciary Net Position..... | 4 |
| Statements of Changes in Fiduciary Net Position..... | 5 |
| Notes to Financial Statements..... | 6 |
| <u>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 <i>Government Auditing Standards</i></u> | 18 |
| <u>Supplementary Information Required by Governmental Accounting Standards Board Statement No. 67:</u> | |
| Schedule of Changes in the City of Lawton Net Pension Liability (Exhibit I)..... | 20 |
| Schedule of the City of Lawton Net Pension Liability (Exhibit II) | 21 |
| Schedule of Contributions from the City of Lawton (Exhibit III) | 22 |
| Schedule of Investment Returns (Exhibit IV)..... | 23 |
| Notes to Required Supplementary Information (Exhibit V)..... | 24 |



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2014 and 2013, and the changes in fiduciary net position of the System for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

Adoption of New Accounting Standards

As discussed in Note 2 to the financial statements, in 2014 the System adopted new accounting guidance, Statement No. 67 of the Governmental Accounting Standards Board, *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

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 20-24 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 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
February 24, 2015

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, 2014 and 2013.

The System is classified as a Pension Trust Fund and is reported as a 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 component unit of the City, the financial statements and related note disclosures are also incorporated into the City's Annual Financial Report. 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 net fiduciary position restricted for pensions for fiscal year 2014 increased by \$4,032,710 (or 8.48%) compared to 2013. All of the net fiduciary position restricted for pensions are available to meet the System's ongoing obligations to members and their beneficiaries.
- Employer contributions for fiscal year 2014 decreased by \$95,283 (or 4.25%) compared to 2013.
- The net investment income for fiscal year 2014 increased by \$2,172,002 (or 63.27%) compared to 2013 due to an increase in the net appreciation in the fair value of investments and dividends that occurred during fiscal year 2014 compared to fiscal year 2013.
- Benefit payments increased by \$418,361 (or 11.83%) during fiscal year 2014 compared to fiscal year 2013.
- During fiscal year 2014, there were 224 retirees and 527 general employees paying into the System or receiving benefits.

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 an 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. Net fiduciary 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 net fiduciary position, such as additions and deductions.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Statements of Fiduciary Net Position

The Statements of Fiduciary Net Position show the financial position of plan assets and liabilities by investment and accounting categories. The excess of assets over liabilities is reported as "net fiduciary position restricted for pensions." Over time, increases or decreases in net fiduciary 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, 2014 and 2013, demonstrates that the System is primarily focused on the cash, receivables, investments, liabilities, and net fiduciary position restricted for pensions.

| | <u>2014</u> | <u>2013</u> | <u>% Increase (Decrease)</u> |
|---|----------------------|-------------------|----------------------------------|
| Cash and cash equivalents | \$ 762,602 | 925,786 | (17.6)% |
| Receivables | 142,561 | 349,145 | (59.2)% |
| Investments | <u>50,836,528</u> | <u>46,322,445</u> | 9.7% |
| Total assets | <u>51,741,691</u> | <u>47,597,376</u> | 8.7% |
| Liabilities | <u>171,660</u> | <u>60,055</u> | 185.8% |
| Net fiduciary position restricted for pensions | <u>\$ 51,570,031</u> | <u>47,537,321</u> | 8.5% |

At June 30, 2014, cash and cash equivalents decreased by \$163,184 (or 17.6%). This decrease was due primarily to investing activities, and as result, investments increased by \$4,514,083 (or 9.7%) during the fiscal year ended June 30, 2014.

Statements of Changes in Fiduciary Net Position

The Statements of Changes in Fiduciary Net Position itemize additions, deductions, and changes in net fiduciary position restricted for pensions. The Statements of Changes in Fiduciary Net Position demonstrate how the System's assets have increased during the fiscal years ended June 30, 2014 and 2013. The following condensed comparative summary of the Statements of Changes in Fiduciary Net Position reflect the activities of the System in regards to employee and employer contributions, net investment income, benefits paid, refunds, administrative expenses, and the changes in net fiduciary position restricted for pensions.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Statements of Changes in Fiduciary Net Position, Continued

| | <u>2014</u> | <u>2013</u> | <u>% Increase (Decrease)</u> |
|--|---------------------|------------------|----------------------------------|
| Additions: | | | |
| Contributions: | | | |
| Employer | \$ 2,144,570 | 2,239,853 | (4.3)% |
| Employee | 1,311,923 | 1,420,508 | (7.6)% |
| Net investment income | <u>5,604,962</u> | <u>3,432,960</u> | 63.3% |
| Total additions | <u>9,061,455</u> | <u>7,093,321</u> | 27.7% |
| Deductions: | | | |
| Benefits | 3,955,622 | 3,537,261 | 11.8% |
| Refunds | 1,046,505 | 886,201 | 18.1% |
| Administrative expenses | <u>26,618</u> | <u>21,796</u> | 22.1% |
| Total deductions | <u>5,028,745</u> | <u>4,445,258</u> | 13.1% |
| Net increase in net fiduciary position | <u>\$ 4,032,710</u> | <u>2,648,063</u> | 52.3% |

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 and net investment income totaled \$9,061,455 during the fiscal year ended June 30, 2014, which is a \$1,968,134 (or 27.7%) increase in total additions from what was reported the previous fiscal year.

Employer contributions are based on a percentage of an employee's pay and decreased \$95,283 (or 4.3%) in 2014; the City's contribution rate was 10%. The amount of employee contributions decreased 7.6% in fiscal year 2014. 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 6.3% of their base salary or wages to the System. The City contributed an additional 10.0% of contributions in both fiscal years 2014 and 2013.

Net investment income was \$5,604,962 for fiscal year 2014, or a \$2,172,002 increase, due mainly to the net appreciation in fair value of investments of \$3,785,067. Interest received was \$457,267 (or 44.6%) lower during fiscal year 2014. Dividends received were \$1,630,750 (or 131.4%) higher during fiscal year 2014. Net appreciation in the fair value of investments was \$3,785,067 (or 77.8%) higher during fiscal year 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Statements of Changes in Fiduciary Net Position, Continued

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 \$418,361 (or 11.8%) during fiscal year 2014, mainly due to an increased number of retirees receiving benefits. 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 as of June 30, 2014, were \$26,618, or \$4,822 higher when compared to the previous fiscal year.

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>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| Retirees and beneficiaries receiving benefits | 224 | 213 |
| Terminated employees entitled to benefits not yet received | - | 9 |
| Current active employees: | | |
| Vested | 150 | 160 |
| Nonvested | <u>377</u> | <u>400</u> |
| Total members | <u><u>751</u></u> | <u><u>782</u></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 net fiduciary 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

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).

As of the June 30, 2014, valuation date based on the actuarial assumptions specified these values were:

| | |
|---|--------------------------|
| Total pension liability: | |
| Active employees | \$ 38,983,193 |
| Retirees and beneficiaries | <u>40,201,482</u> |
| Total | <u>\$ 79,184,675</u> |
| System fiduciary net position | <u>\$ 51,570,031</u> |
| City of Lawton net pension liability | <u>\$ 27,614,644</u> |
| System fiduciary net position as a percentage of the total pension liability | <u>65.13%</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Total Pension Liability, Continued

| | |
|-------------------------------|--|
| Valuation date | June 30, 2014 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar–open |
| Remaining amortization period | 30 years rolling |
| Asset valuation method | Fair market value |
| Actuarial assumptions: | |
| Interest rate | 6.75% |
| Pay increases | 4.25% |
| Mortality | RP 2000 projected |
| Retirement rates | Lawton experience |
| Turnover | Oklahoma Municipal experience |
| COLA's | No provision has been made for automatic post-retirement cost-of-living adjustments. |

Asset Allocation

On November 15, 2007, both the investment objectives and the money manager were changed. On October 25, 2012, the asset allocation was changed from 65% bonds and 35% equities to 50% each. The asset allocation on June 30, 2013, was in the middle of the upper end of the new equity permissible range at 46% bonds and 54% equities. The investment performance goal from the Investment Policy is benchmarked by a blend of 65% Lehman Brothers Aggregate Bond and 35% S&P 500 Total Return Index for both 2014 and 2013. The portfolio's goal is to earn at least 100% of the benchmark for at least two of the preceding time periods of 1 year, 3 years, and 5 years. For the fiscal year ended June 30, 2013, the portfolio partially met the performance goal. The investment performance goal from the Investment Policy was 11.2%. For the fiscal year ended June 30, 2014, the portfolio's performance goal was partially met as it exceeded the 1-year goal but was slightly short of the 3- and 5-year goals.

Significantly, the past 1-year performance of 8.01% and the 3-year performance of 7.83% per year exceeded the requirement of 6.75% used by the actuary. Since November 15, 2007, when the new policy went into effect, through the fiscal year ended June 30, 2014, net portfolio appreciation is \$15,619,513 for a cumulative return of 43.68%, or 5.62% per year. For the fiscal year ended June 30, 2014, net portfolio appreciation was \$5,591,230, or 12.71%.

Market Environment and Results

Investment market conditions were improved during the fiscal year ended June 30, 2014. The net fiduciary position restricted for pensions of the System increased from \$47.54 million to \$51.57 million from July 1, 2013, to June 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

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 going forward 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. The approval of these System changes will help ensure that the System will remain solvent for many years into the future.

Most recently, 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>2014</i> | <i>2013</i> |
|---|---------------------------------|------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 762,602 | 925,786 |
| Receivables: | | |
| Employer's contributions | 42,278 | 119,547 |
| Employees' contributions | 28,184 | 79,697 |
| Accrued interest | 72,099 | 127,425 |
| Prepaid investment expense | - | 22,476 |
| Total receivables | <u>142,561</u> | <u>349,145</u> |
| Investments, at fair value: | | |
| U.S. government securities and agencies | 13,492,822 | 17,431,181 |
| Common stock | 8,736,808 | 4,981,923 |
| Mutual funds | 26,346,793 | 21,742,129 |
| Total investments, at fair value | <u>48,576,423</u> | <u>44,155,233</u> |
| Investments, at book value: | | |
| Other investments, at book value | 2,260,105 | 2,167,212 |
| Total investments | <u>50,836,528</u> | <u>46,322,445</u> |
| Total assets | <u>51,741,691</u> | <u>47,597,376</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | <u>171,660</u> | <u>60,055</u> |
| Total liabilities | <u>171,660</u> | <u>60,055</u> |
| Net fiduciary position restricted for pensions | <u>\$ 51,570,031</u> | <u>47,537,321</u> |

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>2014</i> | <i>2013</i> |
|---|-----------------------------|--------------------------|
| Additions: | | |
| Contributions: | | |
| Employer | \$ 2,144,570 | 2,239,853 |
| Employee | 1,311,923 | 1,420,508 |
| Total contributions | <u>3,456,493</u> | <u>3,660,361</u> |
| Investment income: | | |
| Net appreciation in fair value of investments | 3,785,067 | 2,128,832 |
| Interest | 457,267 | 825,164 |
| Dividends | 1,630,750 | 704,732 |
| Total investment income | 5,873,084 | 3,658,728 |
| Less investment expense | (268,122) | (225,768) |
| Net investment income | <u>5,604,962</u> | <u>3,432,960</u> |
| Total additions | <u>9,061,455</u> | <u>7,093,321</u> |
| Deductions: | | |
| Benefits paid to retirees and beneficiaries | 3,955,622 | 3,537,261 |
| Refunds of contributions | 1,046,505 | 886,201 |
| Administrative expenses | 26,618 | 21,796 |
| Total deductions | <u>5,028,745</u> | <u>4,445,258</u> |
| Net increase in net fiduciary position | 4,032,710 | 2,648,063 |
| Net fiduciary position restricted for pensions: | | |
| Beginning of year | <u>47,537,321</u> | <u>44,889,258</u> |
| End of year | <u>\$ 51,570,031</u> | <u>47,537,321</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, 2014 and 2013

(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 July 1, 1998. The System is administered by the Board of Pension Commissioners (the "Board"). The Commissioners are appointed by the City for 5-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 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, 2014, there were 224 retirees receiving benefits, 527 current active members, and no terminated employees entitled to benefits not yet received.

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, 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 5/12% for each complete month by which the member's early retirement date precedes his 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.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) DESCRIPTION OF THE SYSTEM, CONTINUED

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.

(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).

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The System adopted this statement effective July 1, 2013. The adoption had no significant impact on the System's financial statements. Presently, the System has no items of deferred outflows of resources or deferred inflows of resources to be reported.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—An Amendment of GASB Statements No. 10 and No. 62* (GASB 66). GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements: Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The System adopted this statement effective July 1, 2013. The statement had no significant impact on the financial statements of the System.

In June 2012, GASB issued GASB 67. GASB 67 addresses reporting by pension plans that administer benefits for governments and outlines basic framework for the separately issued financial reports of defined benefit pension plans, and details note disclosure requirements for defined benefit and defined contribution pension plans. The System adopted GASB 67 effective July 1, 2013. The adoption changed various reporting terminology, footnote disclosures, and required supplementary information.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). GASB 70 will require a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. A government that has issued an obligation guaranteed in a nonexchange transaction is to report the obligation until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. This statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The System adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of the System.

Investment Valuation and Income Recognition

The System's investments in U.S. 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 System'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 System presents in the statements of changes in fiduciary net position, the net appreciation in the fair value of its investments, which includes realized gains and losses and unrealized gains and losses on those investments.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 net fiduciary 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 participants' account balances and 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, 2014 and 2013, the System had no long-term receivables. All the receivables reflected in the statements of fiduciary net position are expected to be received and available for use by the System in its operations. Also, no allowance for any uncollectible portions is considered necessary.

Investments

Investment Allocation Policy—The Board's asset allocation policy will currently maintain approximately 50% of assets in equity instruments, 40% domestic and 10% international, including mutual funds and exchange-traded funds; and 50% of assets in cash and fixed income, including FDIC insured bonds, U.S. government bonds, U.S. government agency bonds, mutual funds, and exchange-traded funds.

See Independent Auditors' Report.

EMPLOYEE RETIREMENT SYSTEM OF
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments, Continued

Significant Investment Policy Changes Made During the Year—During the year ended June 30, 2014, the Board changed the allocation for equities from 30%–60% to 30%–70% and the allocation for cash and fixed income from 40%–70% to 30%–70%.

Rate of Return—For the years ended June 30, 2014 and 2013, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.36% and 8.04%, 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.

Income Tax Status

The Internal Revenue Service has determined and informed the System by a letter dated August 11, 2011, 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 February 24, 2015, 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.

(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 Board, with confirmation by the City Council. The City's 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 System and the City is required to contribute 10.0%. Contributions are subject to certain limitations. Administrative costs are paid by the System.

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

See Independent Auditors' Report.

EMPLOYEE RETIREMENT SYSTEM OF
THE CITY OF LAWTON, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2014, total bank balances of the System's deposits were \$805,514, of which \$262,110 was uninsured and uncollateralized. Deposit balances up to \$250,000 in each institution are insured by the Federal Depository Insurance Corporation. Included in the System's total deposits were money market cash accounts of \$216,821. The System has not suffered any losses due to bank failures.

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 and common stock 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.

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 and common stock are excluded. Investments by issuer that account for 5% or more of the System's total investments are listed below.

| | <u>2014</u> | <u>2013</u> |
|---|---------------|-------------|
| U.S. Treasury bills | \$ 10,498,723 | 3,134,785 |
| Federal Home Loan Mortgage Corporation (FHLMC) | - * | 5,741,021 |
| Federal National Mortgage Association (FNMA) | - * | 5,793,860 |
| Government National Mortgage Association (GNMA) | - * | 2,761,515 |

* Investments did not represent 5% or more of the System's total investments at indicated year end.

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.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) DEPOSITS AND INVESTMENTS, CONTINUED

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 mutual funds are not subject to investment interest rate risk. The System's investments and their maturity dates at June 30 were:

| <u>2014</u> | <u>Rating</u> | <u>Years</u> | | | | <u>Total Fair Value</u> |
|--------------------------------|---------------|----------------------|----------------------------------|-----------------------------------|-----------------------|-----------------------------|
| | | <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> | |
| Government agency investments: | | | | | | |
| U.S. Treasury bills | AA+ | \$ 10,498,723 | - | - | - | 10,498,723 |
| FHLMC | AA+ | - | - | - | 1,076,015 | 1,076,015 |
| FNMA | AA+ | - | - | - | 1,854,130 | 1,854,130 |
| GNMA | AA+ | - | - | - | 63,954 | 63,954 |
| | | <u>\$ 10,498,723</u> | <u>-</u> | <u>-</u> | <u>2,994,099</u> | <u>13,492,822</u> |

| <u>2013</u> | <u>Rating</u> | <u>Years</u> | | | | <u>Total Fair Value</u> |
|--------------------------------|---------------|---------------------|----------------------------------|-----------------------------------|-----------------------|-----------------------------|
| | | <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> | |
| Government agency investments: | | | | | | |
| U.S. Treasury bills | AA+ | \$ 1,799,946 | - | 492,754 | 842,085 | 3,134,785 |
| FHLMC | AA+ | - | - | - | 5,741,021 | 5,741,021 |
| FNMA | AA+ | - | - | - | 5,793,860 | 5,793,860 |
| GNMA | AA+ | - | - | - | 2,761,515 | 2,761,515 |
| | | <u>\$ 1,799,946</u> | <u>-</u> | <u>492,754</u> | <u>15,138,481</u> | <u>17,431,181</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 \$2,260,105 and \$2,167,212 as of June 30, 2014 and 2013, 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. One-third of the original judgment amount is payable, with interest, each year. The post judgment interest rate was 5.25% as of both June 30, 2014 and 2013.

The System expects to collect the June 30, 2014, outstanding balance over the following years:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|---------------------|-----------------|
| 2015 | \$ 1,134,122 | 116,112 |
| 2016 | 771,764 | 59,114 |
| 2017 | <u>354,219</u> | <u>18,596</u> |
| | <u>\$ 2,260,105</u> | <u>193,822</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 of Lawton at June 30, 2014, were as follows:

| | |
|---|----------------------|
| Total pension liability | \$ 79,184,675 |
| System fiduciary net position | <u>51,570,031</u> |
| City of Lawton net pension liability | <u>\$ 27,614,644</u> |
| System fiduciary net position as a percentage of the total pension liability | <u>65.13%</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, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

| | |
|----------------------------|--|
| Inflation: | 3.00% |
| Salary increases: | 4.25% |
| Investment rate of return: | 6.75% net of investment expense |
| Mortality: | Pre-retirement mortality rates were based on the RP-2000 Blue Collar Healthy Employees with Generation Projection. Post-retirement mortality rates were based on the same table as pre-retirement mortality rates. Disabled pensioners' mortality rates were based on the RP-2000 Blue Collar Table. |

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 (2.5%) 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, 2014, 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 | 40% | 6.00% |
| International equity | 10% | 6.20% |
| Fixed income | 22% | 2.75% |
| Government securities | 28% | 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 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.

If no additional contribution is made by the City the closed group projection shows a depletion date at year 58. The blended rate of return would have to be adjusted from 6.75% to 5.91%, increasing the total pension liability. By making additional contributions of \$500,000 per year for 7 years the depletion date is eliminated. With the supplemental contributions the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability of the City of Lawton 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 | \$ 88,728,859 | 79,184,675 | 71,301,092 |
| System fiduciary net position | <u>51,570,031</u> | <u>51,570,031</u> | <u>51,570,031</u> |
| City of Lawton net pension liability | <u>\$ 37,158,828</u> | <u>27,614,644</u> | <u>19,731,061</u> |

(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.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) CONTINGENCIES

The System's actuary estimated that a City contribution of 15.44% of participant payroll would be needed to meet the statutory funding standard for the year ended June 30, 2014. The City's contribution rate of 10.00% is far 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. As noted in Note 5 to the financial statements, to maintain a discount rate of 6.75% additional City contributions of \$500,000 per year for the next 7 years are needed. 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.

(8) TRANSACTIONS WITH THE CITY

Employer contributions received from the City were \$2,144,570 and \$2,239,853 for the years ended June 30, 2014 and 2013, respectively, and are shown on the statements of changes in fiduciary net position. Employer contributions receivable from the City were \$42,278 and \$119,547 as of June 30, 2014 and 2013, respectively, and are shown on the statements of fiduciary net position. Other investments of \$2,260,105 and \$2,167,212 as of June 30, 2014 and 2013, respectively, consisted of judgments rendered against the City which have been purchased by the System.



**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, 2014, 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 February 24, 2015. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. Our report also includes an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statement No. 67 by the System.

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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

(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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Finley + Cook, PLLC

Shawnee, Oklahoma
February 24, 2015

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

Exhibit I

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

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

June 30, 2014

Total pension liability

| | |
|--|----------------------|
| Service cost | \$ 2,421,404 |
| Interest | 5,130,919 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | 620,866 |
| Changes in assumptions | - |
| Benefit payments, including refunds of member contributions | <u>(5,002,125)</u> |
| Net change in total pension liability | 3,171,064 |
| Total pension liability—beginning | <u>76,013,611</u> |
| Total pension liability—ending (a) | <u>\$ 79,184,675</u> |

System fiduciary net position

| | |
|--|----------------------|
| Contributions—City of Lawton | \$ 2,144,570 |
| Contributions—members | 1,311,923 |
| Net investment income | 5,604,962 |
| Benefit payments, including refunds of member contributions | <u>(5,002,127)</u> |
| Administrative expense | <u>(26,618)</u> |
| Net change in System fiduciary net position | 4,032,710 |
| System fiduciary net position—beginning | <u>47,537,321</u> |
| System fiduciary net position—ending (b) | <u>\$ 51,570,031</u> |
| City of Lawton net pension liability (a) - (b) | <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.

Exhibit II

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

SCHEDULE OF THE CITY OF LAWTON NET PENSION LIABILITY

June 30, 2014

| | |
|---|----------------------|
| Total pension liability | \$ 79,184,675 |
| System fiduciary net position | <u>51,570,031</u> |
| City of Lawton net pension liability | <u>\$ 27,614,644</u> |
| System fiduciary net position as a percentage of the total pension liability | <u>65.13%</u> |
| Covered-employee payroll | <u>\$ 20,593,547</u> |
| City of Lawton net pension liability as a percentage of covered-employee payroll | <u>134.09%</u> |

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

Exhibit III

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

SCHEDULE OF CONTRIBUTIONS FROM THE CITY OF LAWTON

Last 2 Fiscal Years

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|-------------------|
| Actuarially determined contribution | \$ 3,225,198 | 3,182,857 |
| City of Lawton contribution | <u>2,144,570</u> | <u>2,239,853</u> |
| Contribution deficiency | <u>\$ 1,080,628</u> | <u>943,004</u> |
| Covered-employee payroll | <u>\$ 20,593,547</u> | <u>21,615,172</u> |
| Contributions as a percentage of covered-employee payroll | <u>10.41%</u> | <u>10.36%</u> |

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

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

Exhibit IV

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

SCHEDULE OF INVESTMENT RETURNS

Last 2 fiscal years

| | <u>2014</u> | <u>2013</u> |
|---|---------------|--------------|
| Annual money-weighted rate of return, net of investment expense, as defined by GASB 67 | <u>12.36%</u> | <u>8.04%</u> |

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

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, 2014, valuation follows:

Assumptions

| | |
|------------------------------|--|
| Actuarial cost method: | Entry age |
| Asset valuation method: | Fair market value |
| Amortization method: | Level dollar—open |
| Remaining amortization: | 30 years |
| Actuarial assumptions | |
| Investment rate of return: | 6.75% |
| Projected salary increases*: | 4.25% (3.00% general increases and 1.25% allowance for promotions) |
| Cost-of-living adjustments: | None |
| Mortality | RP2000 projected |
| Retirement rates | City of Lawton experience |
| Turnover | Oklahoma Municipal experience |

*Includes inflation at 3.00%.