

Employee Retirement System of the City of Lawton, Oklahoma

Financial Statements

June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)



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

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the 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, 2020 and 2019, 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 System'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 System'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, 2020 and 2019, 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.

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 25–29 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2021, 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
January 6, 2021

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, 2020 and 2019.

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 fiduciary net position restricted for pensions for fiscal year 2020 decreased by \$538,255 (or 1%) compared to 2019. All of the fiduciary net position restricted for pensions are available to meet the System’s ongoing obligations to members and their beneficiaries.
- Employer contributions for fiscal year 2020 decreased by \$60,244 (or 3%) compared to 2019.
- The net investment income for fiscal year 2020 decreased by \$266,768 (or 8%) compared to 2019, due mainly to a decrease in investment income.
- Benefit payments increased by \$558,933 (or 12%) during fiscal year 2020 compared to fiscal year 2019.
- During fiscal year 2020, there were 263 retirees receiving benefits and 317 active employees paying into the System.

Using the Annual Financial Report

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Statements of Fiduciary Net Position

The statements of fiduciary net position show the financial position of plan assets and liabilities by investment and accounting categories. The excess of assets over liabilities is reported as "fiduciary net position restricted for pensions." Over time, increases or decreases in fiduciary net position restricted for pensions may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. The following condensed comparative summary of the statements of fiduciary net position as of June 30, 2020 and 2019, demonstrates that the System is primarily focused on the cash, receivables, investments, liabilities, and fiduciary net position restricted for pensions.

	<u>2020</u>	<u>2019</u>	<u>% Increase (Decrease)</u>
Cash and cash equivalents	\$ 574,183	555,089	3.44%
Receivables	144,856	148,604	(2.52)%
Investments	<u>56,078,290</u>	<u>56,466,795</u>	(0.69)%
 Total assets	 <u>56,797,329</u>	 <u>57,170,488</u>	 (0.65)%
 Liabilities	 <u>350,279</u>	 <u>185,183</u>	 89.15%
 Fiduciary net position restricted for pensions	 <u>\$ 56,447,050</u>	 <u>56,985,305</u>	 (0.94)%

At June 30, 2020, cash and cash equivalents increased by \$19,093 (or 3%). Due to market conditions, investments decreased by \$388,504 (or 1%) during the fiscal year ended June 30, 2020.

Statements of Changes in Fiduciary Net Position

The statements of changes in fiduciary net position itemize additions, deductions, and changes in fiduciary net position restricted for pensions. The statements of changes in fiduciary net position demonstrate how the System's assets have changed during the fiscal years ended June 30, 2020 and 2019. The following condensed comparative summary of the statements of changes in fiduciary net position reflect the activities of the System in regard to employee and employer contributions, net investment income, benefits paid, refunds, administrative expenses, and the changes in fiduciary net position restricted for pensions.

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

Statements of Changes in Fiduciary Net Position, Continued

	<u>2020</u>	<u>2019</u>	<u>% Increase (Decrease)</u>
Additions:			
Contributions:			
Employer	\$ 1,936,533	1,996,777	(3.02)%
Employee	1,009,330	1,139,575	(11.43)%
Net investment income	<u>2,949,888</u>	<u>3,216,656</u>	(8.29)%
Total additions	<u>5,895,751</u>	<u>6,353,008</u>	(7.20)%
Deductions:			
Benefits paid to retirees and beneficiaries	5,111,009	4,552,076	12.28%
Refunds of contributions	1,280,896	813,924	57.37%
Administrative expenses	<u>42,101</u>	<u>40,210</u>	4.70%
Total deductions	<u>6,434,006</u>	<u>5,406,210</u>	19.01%
Changes in fiduciary net position	<u>\$ (538,255)</u>	<u>946,798</u>	(156.85)%

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 \$5,895,751 during the fiscal year ended June 30, 2020, which is a \$457,257 (or 7%) 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 decreased \$60,244 (or 3%) in fiscal year 2020; the City’s contribution rate was 10%. The amount of employee contributions decreased 11% in fiscal year 2020. Contribution levels are established by the Lawton City Code, Section 17-3-4-339 and may be amended by the Board of Pension Commissioners (the “Board”), with confirmation by the City Council. Effective June 27, 2011, covered employees are required to contribute 6.30% of their base salary or wages to the System. The City contributed an additional 10.00% of contributions in both fiscal years 2020 and 2019.

Net investment income was \$2,949,888 for fiscal year 2020, or a \$266,768 decrease, due mainly to a decrease in dividend income. Interest was \$77,262 (or 51%) higher during fiscal year 2020. Dividends were \$1,086,487 (or 33%) lower during fiscal year 2020. Net appreciation in the fair value of investments was \$744,630 (or 578%) higher during fiscal year 2020.

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 \$558,933 (or 12%) during fiscal year 2020, mainly due to an increase in retirees. Refunds typically represent a return of a nonvested portion of an employee’s contribution made to the retirement system, which varies from year to year. Administrative expenses for the year ended June 30, 2020, were \$1,891 (or 5%) higher when compared to the previous fiscal year.

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

Analysis of Financial Position and Changes in Fiduciary Net Position

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

Membership

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

	<u>2020</u>	<u>2019</u>
Retirees and beneficiaries receiving benefits	263	243
Terminated employees entitled to benefits not yet received	5	1
Current active employees	<u>317</u>	<u>375</u>
Total members	<u><u>585</u></u>	<u><u>619</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 fiduciary net position restricted for pensions in the statements of fiduciary net position and the statements of changes in fiduciary net position presented in the financial statements. In addition to the basic financial statements and various note disclosures, this report also contains required supplementary information.

Total Pension Liability

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

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

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

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

Total Pension Liability, Continued

As of the June 30, 2020 and 2019, respective valuation dates, based on the actuarial assumptions specified, these values were:

	<u>2020</u>	<u>2019</u>
Total pension liability:		
Active employees	\$ 39,495,038	43,867,081
Retirees and beneficiaries	<u>55,425,101</u>	<u>47,505,367</u>
	<u>\$ 94,920,139</u>	<u>91,372,448</u>
 The System's fiduciary net position	 <u>\$ 56,447,050</u>	 <u>56,985,305</u>
 The City of Lawton's net pension liability	 <u>\$ 38,473,089</u>	 <u>34,387,143</u>
 The System's fiduciary net position as a percentage of the total pension liability	 <u>59.47%</u>	 <u>62.37%</u>
 Valuation date:	<u>July 1, 2020</u>	<u>July 1, 2019</u>
Actuarial cost method:	Entry age normal	Entry age normal
Amortization method:	Level dollar	Level dollar
Remaining amortization period:	30 years	30 years
Asset valuation method:	Fair market value	Fair market value
Actuarial assumptions:		
Interest rate:	6.75%	6.75%
Pay increases:	4.25%	4.25%
Mortality:	Pub2010G 40A/60B projected with MP2019	RP-2000 with cohort projection
Retirement rates:	City of Lawton experience	City of Lawton experience
Turnover:	Oklahoma municipal experience	Oklahoma municipal experience
COLA's:	No provision has been made for automatic post-retirement cost-of-living adjustments.	No provision has been made for automatic post-retirement cost-of-living adjustments.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Asset Allocation

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

The allocation of the portfolio on June 30, 2020, was 70% equities with the remaining 30% in bonds, alternatives, and cash. This allocation was within the permissible range. The annual dollar-weighted return for the year ended June 30, 2020, was 5.37%, the 5-year return was 6.24%, and the return from November 15, 2007, through June 30, 2020, was 5.53%. The beginning balance on November 15, 2007, was \$34,679,131; the account has had net withdrawals of \$11,494,848 and net investment earnings of \$32,250,457 through June 30, 2020. The portfolio's 5.24% time-weighted return underperformed both the actuarial 6.75% and the System's benchmark 5.79% time-weighted return for fiscal year 2020. All returns noted above are net of fees.

Market Environment and Results

The investment market conditions were positive for equity markets, with sanguine results in the first half of the fiscal year followed by a volatile second half. The bond market represented by the Barclays Aggregate was positive, up 8.73%, with the 10-year treasury yields decreasing from 2.00% to 0.70%. The portfolio's performance of 5.24% underperformed compared to both the actuarial 6.75% and the System's benchmark 5.79%. The fiduciary net position restricted for pensions of the System decreased from \$56.99 million to \$56.45 million from July 1, 2019, to June 30, 2020.

Major Initiatives

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Major Initiatives, Continued

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

Contacting the System's Financial Management

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

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

STATEMENTS OF FIDUCIARY NET POSITION

<i>June 30,</i>	<i>2020</i>	<i>2019</i>
Assets		
Cash and cash equivalents	\$ 574,183	555,089
Receivables:		
Employer's contributions	55,396	63,233
Employees' contributions	37,531	42,755
Accrued interest	51,929	42,616
Total receivables	<u>144,856</u>	<u>148,604</u>
Investments, at fair value:		
U.S. government securities and agencies	1,754,184	1,693,639
Exchange-traded and closed-end funds	11,291,055	14,086,064
Mutual funds	42,158,397	39,593,743
Other investments	874,654	1,093,349
Total investments, at fair value	<u>56,078,290</u>	<u>56,466,795</u>
Total assets	<u>56,797,329</u>	<u>57,170,488</u>
Liabilities		
Accounts payable	<u>350,279</u>	<u>185,183</u>
Total liabilities	<u>350,279</u>	<u>185,183</u>
Fiduciary net position restricted for pensions	<u>\$ 56,447,050</u>	<u>56,985,305</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>2020</i>	<i>2019</i>
Additions:		
Contributions:		
Employer	\$ 1,936,533	1,996,777
Employee	<u>1,009,330</u>	<u>1,139,575</u>
Total contributions	<u>2,945,863</u>	<u>3,136,352</u>
Investment income:		
Net appreciation in fair value of investments	873,369	128,739
Interest	229,596	152,334
Dividends	<u>2,172,198</u>	<u>3,258,685</u>
Total investment income	3,275,163	3,539,758
Less investment expense	<u>(325,275)</u>	<u>(323,102)</u>
Net investment income	<u>2,949,888</u>	<u>3,216,656</u>
Total additions	<u>5,895,751</u>	<u>6,353,008</u>
Deductions:		
Benefits paid to retirees and beneficiaries	5,111,009	4,552,076
Refunds of contributions	1,280,896	813,924
Administrative expenses	<u>42,101</u>	<u>40,210</u>
Total deductions	<u>6,434,006</u>	<u>5,406,210</u>
Changes in fiduciary net position	(538,255)	946,798
Fiduciary net position restricted for pensions:		
Beginning of year	<u>56,985,305</u>	<u>56,038,507</u>
End of year	<u>\$ 56,447,050</u>	<u>56,985,305</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, 2020 and 2019

(1) DESCRIPTION OF THE SYSTEM

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

During the year ended June 30, 2017, the City established a defined contribution plan for employees hired after June 30, 2017. With the creation of the defined contribution plan, employees hired after June 30, 2017, are prohibited from participating in the City’s defined benefit pension plan. Employees currently enrolled in the defined benefit pension plan will continue to participate and will not be allowed to also participate in the defined contribution plan. The City will continue to fund the defined benefit pension plan and also fund the defined contribution plan. The City will match 3.50% of employee contributions into the defined contribution plan and also contribute 6.50% of employee pay to the defined benefit pension plan.

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, 2020, there were 263 retirees receiving benefits, 317 current active members, and 5 terminated employee entitled to benefits not yet received.

See Independent Auditors’ Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) DESCRIPTION OF THE SYSTEM, CONTINUED

Benefits

Benefits are established by the Lawton City Code, Section 17-3-4-339 and may be amended by the Board, with confirmation by the City Council. The amount of the monthly benefit payable to a member who retires on or after July 1, 1998, is equal to 2.30% 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 their last day of City service and be payable on the last day of each month thereafter during their lifetime. The amount of each monthly payment shall be computed in the same manner as for a normal retirement benefit, reduced by 5/12% for each complete month by which the member's early retirement date precedes their normal retirement date. Disability retirement benefits for a member who prior to eligibility for normal retirement becomes totally and permanently disabled may also be paid subject to certain requirements. The System is evaluated every 2 years for the possibility of cost-of-living increases.

Funding Policy

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

Vesting

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

Deferred Vested Benefit

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

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Recent Accounting Pronouncements

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95 postpones the effective dates of certain provisions in existing GASB Statements and Implementation Guides that are scheduled to become effective for periods beginning after June 15, 2018, and later. This includes GASB 83, GASB 84, GASB 87, GASB 88, GASB 90, GASB 91, GASB 92, GASB 93, Implementation Guide 2018-1, Implementation Guide 2019-1, Implementation Guide 2019-2, and Implementation Guide 2019-3.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The System will adopt GASB 84 effective July 1, 2020, for the June 30, 2021, reporting year. The System is evaluating the impact that GASB 84 will have on the financial statements.

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

Recent Accounting Pronouncements, Continued

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged. The System is evaluating the impact of GASB 87 on the financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 provides certain clarifications regarding debt as a liability and identifies additional required disclosures related to debt, including direct borrowings and direct placements of debt. The System will adopt GASB 88 on July 1, 2020, for the June 30, 2021, reporting year. The System does not expect GASB 88 to have a significant impact on the financial statements.

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

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest* (GASB 90). GASB 90 improves the consistency and comparability of reporting government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The System will adopt GASB 90 effective July 1, 2020, for the June 30, 2021, reporting year. The System does not expect GASB 90 to have a significant impact on the financial statements.

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

Recent Accounting Pronouncements, Continued

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

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

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

Recent Accounting Pronouncements, Continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates Activities* (GASB 93). GASB 93 addresses various accounting and other issues arising from the result of the replacement of an interbank offered rate (IBOR) by 1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment 2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate 3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable 4) removing the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap 5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap and 6) clarifying the definition of *reference rate*, as it is used in Statement 53, as amended. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, and the remaining requirements of GASB 93 are effective for periods beginning after June 15, 2021, for all other provisions. The System is currently evaluating the impact that the adoption of GASB 93 will have on its financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). GASB 94 improves accounting and financial reporting by addressing various issues relating to public-private and public-public partnership arrangements (PPPs). This includes the requirement that PPPs that meet the definition of a lease apply the guidance in GASB 87 and establishes the accounting and financial reporting requirements for all other PPPs. The requirements of GASB 94 are effective for periods beginning after June 15, 2022. The System is currently evaluating the impact that the adoption of GASB 94 will have on its financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. GASB 96 1) defines a SBITA; 2) establishes that SBITA results in a right-to-use subscription intangible asset and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of SBITA; and 4) requires note disclosures regarding SBITA. The requirements of GASB 96 are effective for periods beginning after June 15, 2022. The System is currently evaluating the impact that the adoption of GASB 96 will have on its financial statements.

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

Recent Accounting Pronouncements, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* (GASB 97). The primary objectives of GASB 97 are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of GASB 97 that 1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and 2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective at the date of issuance of GASB 97. The requirements of GASB 97 that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of GASB 97 that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within GASB 97. The System is currently evaluating the impact that the adoption of GASB 97 will have on its financial statements.

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

Investment Valuation and Income Recognition

The System's investments in U.S. government securities and agencies, exchange-traded and closed-end funds, and mutual funds are stated at fair value, which is determined by quoted market prices. The System's 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.

Use of Estimates

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

Risks and Uncertainties

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Receivables

At June 30, 2020 and 2019, the System had no long-term receivables. All the receivables reflected in the statements of fiduciary net position are expected to be fully collected and available for use by the System in its operations. As such, no allowance for any uncollectible portions is considered necessary.

Investments

Investment Allocation Policy—The Board’s investment allocation policy will currently maintain approximately 50% of assets in equity instruments, 40% domestic and 10% international, including mutual funds, exchange-traded funds, and closed-end funds; and 50% of assets in cash and fixed income, including Federal Deposit Insurance Corporation (FDIC) insured bonds, U.S. government bonds, U.S. government agency bonds, mutual funds, exchange-traded funds, and closed-end funds (with a 20% acceptable variance). The allocation of the portfolio on June 30, 2020, was 70% equities, with the remaining 30% in bonds, alternatives, and cash. This allocation was within the permissible range.

Significant Investment Policy Changes Made During the Year—No significant investment policy changes were made during the year ended June 30, 2020 or 2019.

Rate of Return—For the years ended June 30, 2020 and 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.37% and 5.88%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested as defined by GASB 67.

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

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

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

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

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

Income Tax Status

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

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through January 6, 2021, 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 5.30%. Contribution levels are established by the Lawton City Code, Section 17-3-4-339 and may be amended by the Board, with confirmation by the City Council. The City's contribution rate was 9.00% from July 1, 2010, to June 26, 2011. Effective June 27, 2011, covered employees are required to contribute 6.30% of their base salary or wages to the System and the City is required to contribute 10.00%. 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, 2020, \$19,367 of the System's deposits were uninsured and uncollateralized. At June 30, 2019, the System's deposits were fully insured by the FDIC or collateralized.

Investment Custodial Credit Risk

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

Concentrations of Credit Risk

The System places no limit on the amount the System can invest in any one type of issuer. For disclosure purposes, investments in mutual funds, exchange-traded funds, and closed-end funds are excluded. There were no investments by issuer that accounted for 5% or more of the System's total fiduciary net position at June 30, 2020 or 2019.

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.

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**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 equity instruments are not subject to investment interest rate risk. The System's investments with maturity dates at June 30 were as follows:

	Rating	Years				Total Fair Value
		<u>Less than 1</u>	<u>1 or More Less than 5</u>	<u>5 or More Less than 10</u>	<u>10 or More</u>	
<u>2020</u>						
U.S. government securities and agencies:						
FHLMC	AA+	\$ -	-	-	463,106	463,106
FNMA	AA+	-	-	-	1,291,078	1,291,078
GNMA	AA+	-	-	-	-	-
		<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>1,754,184</u>	<u>1,754,184</u>
<u>2019</u>						
U.S. government securities and agencies:						
FHLMC	AA+	\$ -	-	-	444,138	444,138
FNMA	AA+	-	-	-	1,246,747	1,246,747
GNMA	AA+	-	-	-	2,754	2,754
		<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>1,693,639</u>	<u>1,693,639</u>

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) DEPOSITS AND INVESTMENTS, CONTINUED

Investments Measured at Fair Value

	Amounts Measured at <u>Fair Value</u>	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (<u>Level 1</u>)	Significant Other Observable Inputs (<u>Level 2</u>)	Significant Unobservable Inputs (<u>Level 3</u>)
<u>2020</u>				
U.S. government securities and agencies	\$ 1,754,184	-	1,754,184	-
Exchange-traded and closed-end funds	11,291,055	11,291,055	-	-
Mutual funds	42,158,397	42,158,397	-	-
Other investments	<u>874,654</u>	<u>-</u>	<u>-</u>	<u>874,654</u>
Total investments measured at fair value	<u>\$ 56,078,290</u>	<u>53,449,452</u>	<u>1,754,184</u>	<u>874,654</u>
<u>2019</u>				
U.S. government securities and agencies	\$ 1,693,639	-	1,693,639	-
Exchange-traded and closed-end funds	14,086,064	14,086,064	-	-
Mutual funds	39,593,743	39,593,743	-	-
Other investments	<u>1,093,349</u>	<u>-</u>	<u>-</u>	<u>1,093,349</u>
Total investments measured at fair value	<u>\$ 56,466,795</u>	<u>53,679,807</u>	<u>1,693,639</u>	<u>1,093,349</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 \$874,654 and \$1,093,349 as of June 30, 2020 and 2019, respectively, consisted of judgments rendered against the City which have been purchased by the System. The System purchases the judgments directly from the claimants. Since there is no quoted market price available for valuing these judgments, they are valued in the financial statements at original purchase price less principal collected to date and are considered level 3 investments. One-third of the original judgment amount is payable, with interest, each year. The post judgment interest rate was 6.75% and 7.50% as of June 30, 2020 and 2019, respectively.

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

The System expects to collect the June 30, 2020, outstanding balance over the following years:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 440,177	61,878
2022	330,361	31,482
2023	<u>104,116</u>	<u>7,482</u>
	<u>\$ 874,654</u>	<u>100,842</u>

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

(5) NET PENSION LIABILITY OF THE CITY OF LAWTON

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

	<u>2020</u>	<u>2019</u>
Total pension liability	\$ 94,920,139	91,372,448
The System's fiduciary net position	<u>56,447,050</u>	<u>56,985,305</u>
The City's net pension liability	<u>\$ 38,473,089</u>	<u>34,387,143</u>
The System's fiduciary net position as a percentage of the total pension liability	<u>59.47%</u>	<u>62.37%</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, 2020 and 2019, using the following actuarial assumptions, applied to all prior periods included in the measurement:

	<u>2020</u>	<u>2019</u>
Inflation:	2.50%	2.50%
Salary increases:	4.25%	4.25%
Investment rate of return, net of investment expenses:	6.75%	6.75%
Mortality:	Mortality rates were based on the Pub2010G 40A/60B table fully projected using the MP2019 table. The new table is based on the first large scale study of public employee mortality made by the Society of Actuaries.	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 (2.50%) and deducting expenses. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the following table:

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

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

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

2020

The following presents the net pension liability of the City as of June 30, 2020, 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 <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Total pension liability	\$ 105,609,842	94,920,139	85,936,266
The System's fiduciary net position	<u>56,447,050</u>	<u>56,447,050</u>	<u>56,447,050</u>
The City's net pension liability	<u>\$ 49,162,792</u>	<u>38,473,089</u>	<u>29,489,216</u>

2019

The following presents the net pension liability of the City as of June 30, 2019, 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 <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Total pension liability	\$ 101,640,683	91,372,448	80,346,445
The System's fiduciary net position	<u>56,985,305</u>	<u>56,985,305</u>	<u>56,985,305</u>
The City's net pension liability	<u>\$ 44,655,378</u>	<u>34,387,143</u>	<u>23,361,140</u>

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) TERMINATION OF THE SYSTEM

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

(7) CONTINGENCIES

Contribution Rate Shortage

The System's actuary estimated that a City contribution of 23.41% of participant payroll would be needed to meet the statutory funding standard for the year ended June 30, 2021. The City's contribution rate of 10% is short of this standard. Increased employee contributions could also be used to replace some of the deficiency. The growing net pension liability illustrates that there is little chance that the City's contribution rate and the employee contribution rate can maintain the System over the lifetime of the participant group. Future contribution requirements will become higher and higher if the contribution rate is not increased. Benefits for employees hired after June 30, 2011, were changed from a final average pay formula to a career average pay formula using the 2.30% multiplier.

COVID-19

The novel coronavirus ("COVID-19"), which was declared a global health emergency in January 2020 and a pandemic in March 2020, has caused significant changes in political and economic conditions around the world, including disruptions and volatility in the global capital markets. In response, the State of Oklahoma and local municipalities have taken various preventative or protective actions, such as imposing restrictions on business operations and advising or requiring individuals to limit or forgo their time outside of their homes. The System's management has considered the economic implications of the COVID-19 pandemic in making critical and significant accounting estimates included in the June 30, 2020, financial statements.

The extent to which the COVID-19 pandemic may impact the System will depend on future developments which are uncertain, such as the duration of the outbreak, additional governmental mandates issued to mitigate the spread of the disease, business closures, economic disruptions, and the effectiveness of actions taken to contain and treat the virus. Accordingly, the COVID-19 pandemic may have a negative impact on the System's future operations, the size and duration of which is difficult to predict. The System's management will continue to actively monitor the situation and may take further actions altering operations that the System's management determines are in the best interests of its employees and stakeholders, or as required by federal, state, or local authorities.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) TRANSACTIONS WITH THE CITY

Employer contributions received from the City were \$1,936,533 and \$1,996,777 for the years ended June 30, 2020 and 2019, respectively, and are shown on the statements of changes in fiduciary net position. Employer contributions receivable from the City were \$55,396 and \$63,233 as of June 30, 2020 and 2019, respectively, and are shown on the statements of fiduciary net position. Other investments of \$874,654 and \$1,093,349 as of June 30, 2020 and 2019, respectively, consisted of judgments rendered against the City which have been purchased by the System.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Employee Retirement System of the City of Lawton, Oklahoma (the "System"), a component unit of the City of Lawton, Oklahoma, which comprise the statement of fiduciary net position as of June 30, 2020, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2021. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in a separate letter dated January 6, 2021, that we consider to be a significant deficiency.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, CONTINUED**

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
January 6, 2021

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

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

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

Last 7 Fiscal Years

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

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

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

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

SCHEDULE OF THE CITY OF LAWTON'S NET PENSION LIABILITY

Last 7 Fiscal Years

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

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

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

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

SCHEDULE OF CONTRIBUTIONS FROM THE CITY OF LAWTON

Last 8 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 3,665,807	3,586,534	3,590,720	3,669,120	3,271,543	3,179,977	3,225,198	3,182,857
The City of Lawton's contribution	<u>1,936,533</u>	<u>1,996,777</u>	<u>2,073,681</u>	<u>2,095,587</u>	<u>2,068,439</u>	<u>2,021,594</u>	<u>2,144,570</u>	<u>2,239,853</u>
Contribution deficiency	<u>\$ 1,729,274</u>	<u>1,589,757</u>	<u>1,517,039</u>	<u>1,573,533</u>	<u>1,203,104</u>	<u>1,158,383</u>	<u>1,080,628</u>	<u>943,004</u>
Covered payroll*	<u>\$ 18,753,645</u>	<u>19,969,869</u>	<u>21,452,987</u>	<u>20,903,375</u>	<u>20,580,295</u>	<u>20,593,547</u>	<u>21,615,172</u>	<u>22,095,022</u>
Contributions as a percentage of covered payroll	<u>10.33%</u>	<u>10.00%</u>	<u>9.67%</u>	<u>10.03%</u>	<u>10.05%</u>	<u>9.82%</u>	<u>9.92%</u>	<u>10.14%</u>

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

*Covered payroll is based on a projection of pay using a snapshot census at the beginning of the year. Contributions measured as a percent of covered payroll will not precisely match the statutory 10% employer contribution rate due to hires, terminations, and pay raises during the year.

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

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

SCHEDULE OF INVESTMENT RETURNS

Last 8 Fiscal Years

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

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

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

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, 2020, valuation follows:

	<u>Assumptions</u>
Actuarial cost method:	Entry age normal
Asset valuation method:	Fair market value
Amortization method:	Level dollar
Remaining amortization:	30 years
Actuarial assumptions:	
Investment rate of return:	6.75%
Projected salary increases*:	4.25% per year (3% general increases and 1.25% allowance for promotions)
Cost-of-living adjustments:	None
Mortality:	Pub2010G 40A/60B projected with MP2019
Retirement rates:	City of Lawton experience
Turnover:	Oklahoma municipal experience

*Includes inflation at 2.50%.

See Independent Auditors' Report.