

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

*Financial Statements*

June 30, 2016 and 2015  
(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, 2016 and 2015, 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, 2016 and 2015, 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**

As discussed in Note 2 to the financial statements, in 2016, the System adopted new accounting guidance, Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*. Adoption of this statement resulted in revised disclosures related to the financial statements. Our opinion is not modified with respect to this matter.

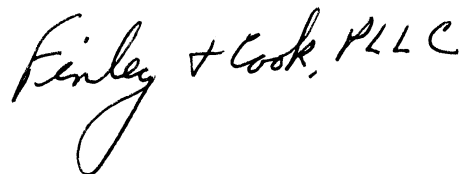
### **Other Matters**

#### *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 23–27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 April 11, 2017, 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.



Shawnee, Oklahoma  
April 11, 2017

## **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, 2016 and 2015.

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 2016 decreased by \$2,404,546 (or 4.72%) compared to 2015. 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 2016 increased by \$46,845 (or 2.32%) compared to 2015.
- The net investment income for fiscal year 2016 decreased by \$1,666,073 (or 195.23%) compared to 2015 due mainly to an increase in the net depreciation in the fair value of investments that occurred during fiscal year 2016 compared to fiscal year 2015.
- Benefit payments increased by \$119,725 (or 2.99%) during fiscal year 2016 compared to fiscal year 2015.
- During fiscal year 2016, there were 229 retirees and 517 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 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. 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, 2016 and 2015, demonstrates that the System is primarily focused on the cash, receivables, investments, liabilities, and net fiduciary position restricted for pensions.

	<u>2016</u>	<u>2015</u>	<u>% Increase (Decrease)</u>
Cash and cash equivalents	\$ 1,113,388	497,199	123.93%
Receivables	149,366	138,578	7.78%
Investments	<u>47,498,266</u>	<u>50,503,945</u>	(5.95)%
Total assets	<u>48,761,020</u>	<u>51,139,722</u>	(4.65)%
Liabilities	<u>199,650</u>	<u>173,806</u>	14.87%
Fiduciary net position restricted for pensions	<u>\$ 48,561,370</u>	<u>50,965,916</u>	(4.72)%

At June 30, 2016, cash and cash equivalents increased by \$616,189 (or 123.93%). This increase was due primarily to investing activities. Due to market conditions, investments decreased by \$3,005,679 (or 5.95%) during the fiscal year ended June 30, 2016.

### 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 changed during the fiscal years ended June 30, 2016 and 2015. 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>2016</u>	<u>2015</u>	<u>% Increase (Decrease)</u>
<b>Additions:</b>			
Contributions:			
Employer	\$ 2,068,439	2,021,594	2.32%
Employee	1,296,400	1,279,749	1.30%
Net investment (loss) income	<u>(812,694)</u>	<u>853,379</u>	(195.23)%
Total additions	<u>2,552,145</u>	<u>4,154,722</u>	(38.57)%
<b>Deductions:</b>			
Benefits paid to retirees and beneficiaries	4,124,330	4,004,605	2.99%
Refunds of contributions	801,341	729,220	9.89%
Administrative expenses	<u>31,020</u>	<u>25,012</u>	24.02%
Total deductions	<u>4,956,691</u>	<u>4,758,837</u>	4.16%
Changes in fiduciary net position	<u>\$ (2,404,546)</u>	<u>(604,115)</u>	298.03%

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 loss totaled \$2,552,145 during the fiscal year ended June 30, 2016, which is a \$1,602,577 (or 38.57%) decrease in total additions from what was reported the previous fiscal year.

Employer contributions are based on a percentage of an employee’s pay and increased \$46,845 (or 2.32%) in 2016; the City’s contribution rate was 10.0%. The amount of employee contributions increased 1.30% in fiscal year 2016. 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 2016 and 2015.

Net investment loss was \$812,694 for fiscal year 2016, or a \$1,666,073 decrease, due mainly to the net depreciation in the fair value of investments of \$2,787,439. Interest received was \$49,057 (or 20.80%) lower during fiscal year 2016. Dividends received were \$553,242 (or 21.14%) lower during fiscal year 2016. Net depreciation in the fair value of investments was \$1,077,561 (or 63.02%) lower during fiscal year 2016.

## 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 \$119,725 (or 2.99%) during fiscal year 2016, 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, 2016, were \$31,020 (or \$6,008 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>2016</u>	<u>2015</u>
Retirees and beneficiaries receiving benefits	229	225
Terminated employees entitled to benefits not yet received	6	3
Current active employees:		
Vested	185	160
Nonvested	<u>332</u>	<u>358</u>
Total members	<u><u>752</u></u>	<u><u>746</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.



## 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, 2016 and 2015, respective valuation dates, based on the actuarial assumptions specified, these values were:

	<u>2016</u>	<u>2015</u>
Total pension liability:		
Active employees	\$ 39,952,856	39,425,658
Retirees and beneficiaries	<u>42,969,163</u>	<u>40,639,213</u>
	<u>\$ 82,922,019</u>	<u>80,064,871</u>
The System's fiduciary net position	<u>\$ 48,561,370</u>	<u>50,965,916</u>
The City of Lawton's net pension liability	<u>\$ 34,360,649</u>	<u>29,098,955</u>
The System's fiduciary net position as a percentage of the total pension liability	<u>58.56%</u>	<u>63.66%</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### **Total Pension Liability, Continued**

Valuation date:	June 30, 2016	June 30, 2015
Actuarial cost method:	Entry age normal	Entry age normal
Amortization method:	Level dollar	Level dollar
Remaining amortization period:	30 years rolling	30 years rolling
Asset valuation method:	Fair market value	Fair market value
Actuarial assumptions:		
Interest rate:	6.75%	6.75%
Pay increases:	4.25%	4.25%
Mortality:	RP-2000 with cohort projection	RP-2000 projected
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.

### **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 3<sup>rd</sup> 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, 2016, was 69% equities and 31% bonds. This allocation was within the permissible range. The annual return for the year ended June 30, 2016, was (1.88)%, the 5-year return was 4.25%, and the return from November 15, 2007, through June 30, 2016, was 4.23%. The beginning balance on November 15, 2007, was \$34,679,131; the account has had net withdrawals of \$(3,696,017) and net investment earnings of \$15,454,906 through June 30, 2016.

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

### **Market Environment and Results**

The investment market conditions were challenging, with equity markets having corrections in August of 2015 and January and June of 2016. The 10-year treasury yields fell during the period from 2.34% to 1.48%. The net fiduciary position restricted for pensions of the System decreased from \$50.97 million to \$48.56 million from July 1, 2015, to June 30, 2016.

### **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>2016</i>	<i>2015</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,113,388	497,199
Receivables:		
Employer's contributions	60,631	48,544
Employees' contributions	41,021	36,897
Accrued interest	47,714	53,137
Total receivables	<u>149,366</u>	<u>138,578</u>
Investments, at fair value:		
U.S. government securities and agencies	1,968,895	2,384,954
Common stock	10,823,527	16,921,074
Mutual funds	33,149,320	29,450,608
Total investments, at fair value	<u>45,941,742</u>	<u>48,756,636</u>
Investments, at book value:		
Other investments, at book value	1,556,524	1,747,309
Total investments	<u>47,498,266</u>	<u>50,503,945</u>
 Total assets	 <u>48,761,020</u>	 <u>51,139,722</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	<u>199,650</u>	<u>173,806</u>
 Total liabilities	 <u>199,650</u>	 <u>173,806</u>
 <b>Fiduciary net position restricted for pensions</b>	 <b><u>\$ 48,561,370</u></b>	 <b><u>50,965,916</u></b>

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

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

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

<i>Years Ended June 30,</i>	<i>2016</i>	<i>2015</i>
<b>Additions:</b>		
Contributions:		
Employer	\$ 2,068,439	2,021,594
Employee	1,296,400	1,279,749
Total contributions	<u>3,364,839</u>	<u>3,301,343</u>
Investment (loss) income:		
Net depreciation in fair value of investments	(2,787,439)	(1,709,878)
Interest	186,811	235,868
Dividends	2,063,879	2,617,121
Total investment (loss) income	<u>(536,749)</u>	<u>1,143,111</u>
Less investment expense	<u>(275,945)</u>	<u>(289,732)</u>
Net investment (loss) income	<u>(812,694)</u>	<u>853,379</u>
Total additions	<u>2,552,145</u>	<u>4,154,722</u>
<b>Deductions:</b>		
Benefits paid to retirees and beneficiaries	4,124,330	4,004,605
Refunds of contributions	801,341	729,220
Administrative expenses	31,020	25,012
Total deductions	<u>4,956,691</u>	<u>4,758,837</u>
<b>Changes in fiduciary net position</b>	<b>(2,404,546)</b>	<b>(604,115)</b>
Fiduciary net position restricted for pensions:		
Beginning of year	<u>50,965,916</u>	<u>51,570,031</u>
End of year	<u><b>\$ 48,561,370</b></u>	<u><b>50,965,916</b></u>

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016 and 2015**

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**(1) DESCRIPTION OF THE SYSTEM**

On November 1, 1970, the City of Lawton, Oklahoma (the “City”) established the Employee Retirement System of the City of Lawton, Oklahoma (the “System”) and a related Pension Trust to accumulate funds to provide retirement benefits for eligible employees of the City. The System, a single-employer defined benefit pension plan, was restated in its entirety by City Ordinance Number 692 on November 1, 1975. The last amendment was signed on 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, 2016, there were 229 retirees receiving benefits, 517 current active members, and 6 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**

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**(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).

See Independent Auditors' Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Recent Accounting Pronouncements**

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The System adopted GASB 72 on July 1, 2015. Adoption of this statement resulted in presentation changes to the financial statements and revised disclosures related to the financial statements.

In June 2015, GASB issued Statement 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* (GASB 73). GASB 73 addresses accounting and financial reporting for pensions that do not meet the criteria for applying GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), and amends certain disclosure requirements of GASB 67 and GASB 68. GASB 73 amendments include restricting additional disclosures related to 10-year schedules required by GASB 67 to be limited to factors over which the plan or government has influence, such as a change in investment policies. Amendments also address payables to a plan that are not separately financed specific liabilities, and the timing of employer recognition of revenue for the support of nonemployer contributing entities. The System adopted this statement on July 1, 2015. The adoption had no significant impact on the System's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). GASB 74 seeks to improve the usefulness of information about postemployment benefits (OPEB) other than pensions. This statement provides guidance for reporting and disclosure of defined benefit and defined contribution OPEB plans. The System adopted this statement on July 1, 2015. The System has no items to be reported under GASB 74, and the adoption had no significant impact on the System's financial statements.

See Independent Auditors' Report.



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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Recent Accounting Pronouncements, Continued**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB 74 establishes new accounting and financial reporting requirements for OPEB plans. The scope of GASB 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, GASB 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB 75 is effective for fiscal years beginning after June 15, 2017. The System has not yet determined the complete impact of adopting GASB 75.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies accounting sources used to prepare state and local government financial statements in conformity with GAAP, and established a GAAP hierarchy of these resources. This Statement improves financial reporting by raising the category of GAAP Implementation Guides in the GAAP hierarchy, by emphasizing the importance of analogies to authoritative literature when an accounting event is not specified in authoritative GAAP, and by requiring the consideration of consistency with GASB Concept Statements when evaluating accounting treatments in non-authoritative GAAP. The System adopted this statement on July 1, 2015. The adoption had no significant impact on the System's financial statements.

See Independent Auditors' Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Recent Accounting Pronouncements, Continued**

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 provides financial reporting and disclosure guidance to governments that have either entered into tax abatement agreements or that have revenues affected by tax abatements entered into by another government. Governments will generally use tax abatements to encourage specific economic development that benefit either the government or its citizens by forgoing certain taxes. The System will adopt GASB 77 effective July 1, 2016, for the June 30, 2017, reporting year. The System does not expect GASB 77 to have a significant impact on the financial statements.

In December 2015, GASB issued Statement No. 79, *Certain Investment Pools and Pool Participants* (GASB 79). GASB 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Specific criteria address (1) the way the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. The System adopted this statement effective July 1, 2015. The adoption of this statement had no significant impact on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* (GASB 80). GASB 80 amends blending requirements for the financial statements of component units to include criteria requiring blending of a component unit organized as a not-for-profit corporation in which the primary government is the sole corporate member. The System will adopt GASB 80 effective July 1, 2016, for the June 30, 2017, reporting year. The System does not expect GASB 80 to have a significant impact on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. The System will adopt GASB 81 effective July 1, 2017, for the June 30, 2018, reporting year. The System does not expect GASB 81 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**

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

**Recent Accounting Pronouncements, Continued**

In March 2016, GASB issued Statement No. 82, *Pension Issues* (GASB 82). GASB 82 addresses issues that arose for pension plans and participating employers when implementing GASB 67 and GASB 68. Under GASB 82, “covered payroll” will be the metric used to prepare ratios and other measures in schedules included in required supplementary information. This change replaces “covered-employee payroll,” the presentation required by GASB 67 and GASB 68, since this particular data element presented operational challenges to pension plans. GASB 82 also now clarifies that a deviation, as defined by the Actuarial Standards Board, when selecting the assumptions used to determine total pension and liability related measures, is not considered to be in conformity with GASB 67 and GASB 68. And lastly, in certain circumstances, employers may make a portion or the entire employee required contributions to a pension plan on behalf of the employee. Under GASB 82, these contributions are classified as plan member contributions for GASB 67. For purposes of GASB 68, including determining an employer’s proportion, those amounts should also be considered employee contributions. The System adopted this statement effective July 1, 2015. The adoption had no significant impact on the System’s financial statements.

**Investment Valuation and Income Recognition**

The System’s investments in U.S. government securities and agencies, money markets, marketable common stock, mutual funds, 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 (depreciation) 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 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.

See Independent Auditors’ Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Risks and Uncertainties**

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

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

**Receivables**

At June 30, 2016 and 2015, 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 investment 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.

*Significant Investment Policy Changes Made During the Year*—No significant investment policy changes were made during the year ended June 30, 2016 or 2015.

*Rate of Return*—For the years ended June 30, 2016 and 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (1.88)% and 1.54%, 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.

See Independent Auditors' Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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

**Investments, Continued**

*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:

1. Level 1—Unadjusted quoted prices in active markets for identical assets.
2. Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.
3. Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

**Income Tax Status**

The Internal Revenue Service has determined and informed the System by a letter dated August 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 April 11, 2017, the date which the financial statements were available to be issued.

**(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**

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**(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, 2016, total bank balances of the System's deposits were \$1,187,115, of which \$437,115 was uninsured but collateralized by securities with a market value of approximately \$752,000. 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 \$487,687.

**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. There were no investments by issuer that accounted for 5% or more of the System's total fiduciary net position at June 30, 2016 or 2015.

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>2016</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>	
U.S. government securities and agencies:						
FHLMC	AA+	\$ -	-	-	526,120	526,120
FNMA	AA+	-	-	-	1,419,916	1,419,916
GNMA	AA+	-	-	-	22,859	22,859
		<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>1,968,895</u>	<u>1,968,895</u>

<u>2015</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>	
U.S. government securities and agencies:						
FHLMC	AA+	\$ -	-	-	787,185	787,185
FNMA	AA+	-	-	-	1,554,236	1,554,236
GNMA	AA+	-	-	-	43,533	43,533
		<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>2,384,954</u>	<u>2,384,954</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**

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>	Amounts Measured at Fair Value			
U.S. government securities and agencies	\$ 1,968,895	-	1,968,895	-
Common stock	10,823,527	10,823,527	-	-
Mutual funds	<u>33,149,320</u>	<u>33,149,320</u>	<u>-</u>	<u>-</u>
Total investments measured at fair value	<u>\$ 45,941,742</u>	<u>43,972,847</u>	<u>1,968,895</u>	<u>-</u>

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2015</u>	Amounts Measured at Fair Value			
U.S. government securities and agencies	\$ 2,384,954	-	2,384,954	-
Common stock	16,921,074	16,921,074	-	-
Mutual funds	<u>29,450,608</u>	<u>29,450,608</u>	<u>-</u>	<u>-</u>
Total investments measured at fair value	<u>\$ 48,756,636</u>	<u>46,371,682</u>	<u>2,384,954</u>	<u>-</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 \$1,556,524 and \$1,747,309 as of June 30, 2016 and 2015, 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 5.50% and 5.25% as of June 30, 2016 and 2015, 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, 2016, outstanding balance over the following years:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 824,024	82,565
2018	469,804	39,022
2019	<u>262,696</u>	<u>14,074</u>
	<u>\$ 1,556,524</u>	<u>135,661</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>2016</u>	<u>2015</u>
Total pension liability	\$ 82,922,019	80,064,871
The System's fiduciary net position	<u>48,561,370</u>	<u>50,965,916</u>
The City's net pension liability	<u>\$ 34,360,649</u>	<u>29,098,955</u>
The System's fiduciary net position as a percentage of the total pension liability	<u>58.56%</u>	<u>63.66%</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, 2016 and 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

	<u>2016</u>	<u>2015</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:	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.	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, 2016, 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.

2016

The following presents the net pension liability of the City as of June 30, 2016, 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 <u>Rate (6.75%)</u>	1% Increase <u>(7.75%)</u>
Total pension liability	\$ 92,460,525	82,922,019	74,895,753
The System's fiduciary net position	<u>48,561,370</u>	<u>48,561,370</u>	<u>48,561,370</u>
 The City's net pension liability	 <u>\$ 43,899,155</u>	 <u>34,360,649</u>	 <u>26,334,383</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**

2015

The following presents the net pension liability of the City as of June 30, 2015, 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	\$ 89,715,745	80,064,871	72,093,165
The System's fiduciary net position	<u>50,965,916</u>	<u>50,965,916</u>	<u>50,965,916</u>
 The City's net pension liability	 <u>\$ 38,749,829</u>	 <u>29,098,955</u>	 <u>21,127,249</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.

**(7) CONTINGENCIES**

The System’s actuary estimated that a City contribution of 17.55% of participant payroll would be needed to meet the statutory funding standard for the year ended June 30, 2017. 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. As discussed 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.

See Independent Auditors’ Report.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(8) TRANSACTIONS WITH THE CITY**

Employer contributions received from the City were \$2,068,439 and \$2,021,594 for the years ended June 30, 2016 and 2015, respectively, and are shown on the statements of changes in fiduciary net position. Employer contributions receivable from the City were \$60,631 and \$48,544 as of June 30, 2016 and 2015, respectively, and are shown on the statements of fiduciary net position. Other investments of \$1,556,524 and \$1,747,309 as of June 30, 2016 and 2015, respectively, consisted of judgments rendered against the City which have been purchased by the System.

**(9) SUBSEQUENT EVENTS**

The City is considering establishing a defined contribution plan for employees hired after June 30, 2017. The proposal is expected to go before City Council during April 2017 and would prohibit employees hired after June 30, 2017, from participating in the City's defined benefit pension plan. Employees currently enrolled in the defined benefit pension plan would continue to participate and would not be allowed to also participate in the defined contribution plan. The City would continue to fund the defined benefit pension plan and also fund the defined contribution plan. The City would match specified employee contributions into the defined contribution plan and also contribute certain amounts to the defined benefit pension plan. The proposal also includes certain administrative changes to the Board.

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, 2016, 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 April 11, 2017. 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. 72 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  
April 11, 2017

**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 3 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>			
Service cost	\$ 2,355,200	2,377,346	2,421,404
Interest	5,404,379	5,344,966	5,130,919
Changes of benefit terms	-	-	-
Differences between expected and actual experience	23,241	(2,103,217)	620,866
Changes in assumptions	-	-	-
Benefit payments, including refunds of member contributions	<u>(4,925,672)</u>	<u>(4,738,899)</u>	<u>(5,002,125)</u>
Net change in total pension liability	2,857,148	880,196	3,171,064
Total pension liability—beginning	<u>80,064,871</u>	<u>79,184,675</u>	<u>76,013,611</u>
Total pension liability—ending (a)	<u>\$ 82,922,019</u>	<u>80,064,871</u>	<u>79,184,675</u>
<b>The System's fiduciary net position</b>			
Contributions—City of Lawton	\$ 2,068,439	2,021,594	2,144,570
Contributions—members	1,296,400	1,279,749	1,311,923
Net investment (loss) income	(812,694)	853,379	5,604,962
Benefit payments, including refunds of member contributions	(4,925,671)	(4,733,825)	(5,002,127)
Administrative expense	<u>(31,020)</u>	<u>(25,012)</u>	<u>(26,618)</u>
Net change in the System's fiduciary net position	(2,404,546)	(604,115)	4,032,710
The System's fiduciary net position—beginning	<u>50,965,916</u>	<u>51,570,031</u>	<u>47,537,321</u>
The System's fiduciary net position—ending (b)	<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>\$ 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 3 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 82,922,019	80,064,871	79,184,675
The System's fiduciary net position	<u>48,561,370</u>	<u>50,965,916</u>	<u>51,570,031</u>
The City of Lawton's net pension liability	<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>58.56%</u>	<u>63.66%</u>	<u>65.13%</u>
Covered payroll	<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>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 4 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 3,271,543	3,179,977	3,225,198	3,182,857
The City of Lawton's contribution	<u>2,068,439</u>	<u>2,021,594</u>	<u>2,144,570</u>	<u>2,239,853</u>
Contribution deficiency	<u>\$ 1,203,104</u>	<u>1,158,383</u>	<u>1,080,628</u>	<u>943,004</u>
Covered payroll*	<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>10.05%</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 4 Fiscal Years*

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	<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>(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, 2016**

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The information presented in the required supplementary schedules was determined as part of an actuarial valuation by independent enrolled actuaries (Dean Actuaries, LLC). Additional information as of the July 1, 2016, 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 rolling
Actuarial assumptions:	
Investment rate of return:	6.75%
Projected salary increases*:	4.25% per year (3.00% general increases and 1.25% allowance for promotions)
Cost-of-living adjustments:	None
Mortality:	RP-2000 with cohort projection
Retirement rates:	City of Lawton experience
Turnover:	Oklahoma municipal experience

\*Includes inflation at 2.50%.

See Independent Auditors' Report.