MINUTES
PENSION TRUST COMMISSION
SECOND FLOOR CONFERENCE ROOM
CITY HALL
JANUARY 24, 2019 – 9:00 A.M.

Bart Hadley called the meeting to order at 9:00 a.m. in the City Hall Second Floor Conference Room. Notice of meeting and agenda was posted on the City Hall notice board as required by law.

ROLL CALL
PRESENT: Bayones, Teri; Dentler, Carl; Ellwanger, Paul; Hadley, Bart; Hill, Andy; Livingston, Steve; Petersen, Ed.
ABSENT: None
ALSO PRESENT: Denise Ezell, City Clerk's Office; Perry Warren and Chad Rother, Morgan Stanley; Stephanie Tehauno, Financial Services.

I. Introduction of Visitors

Hadley stated since we have several here today let's go around the room and introduce ourselves.

Warren Wick, Human Resource Director
Dan Bledsoe, Finley & Cook Audit Partner
Diane Branstetter, Financial Director
Madison Leonhart, Account
Chuck Dean, Actuary
Chad Rother, Morgan Stanley
Bart Hadley, Pension Trust Chair & Acting City Manager
Stephanie Tehauno, Account
Teri Bayones, Board Member
Ed Petersen, New Board Member
Andy Hill, Board Member
Perry Warren, Morgan Stanley
Carl Dentler, Board Member
Paul Ellwanger, Board Member
Steve Livingston, Board Member
Denise Ezell, Staff

III. New Business

A. Approve minutes of October 25, 2018.

Motion by Hill, **Second** by Bayones, to approve the minutes of October 25, 2018. **Aye**: Dentler; Ellwanger; Hadley; Hill; Livingston; Bayones. **Abstain**: Petersen. **Nay**: None. **Motion Passed**.

B. Receive quarterly financial report from Morgan Stanley and take action if necessary – Perry Warren, Morgan Stanley.

Warren stated I would like to thank the Trust for allowing us to be here to provide an update on the investment account. Starting on page 4 you see it reflects the dollar weighted return for the year to date of 2019 and the calendar year return. I have broken down the last 4 years into quarterly returns to better reflect the volatility for those years. Notice that 2015 and 2018 had 2 negative quarters and both had negative yearly returns. 2016 had 1 negative quarter and 2017 had none. Year to date for 2019 we are up 4.81% and the calendar year for 2018 was a negative 4.66%. Calendar year 2017 was a positive 15.22% and 2016 a positive 7.05%. Page 6 reflects the time weighted returns for year ending 2018 and this is the second quarter for the plan. Look to the upper left hand side at Time Weighted Return Net of Fees. Under the inception column from November 15, 2017 through December 31, 2018 the beginning balance was \$34,679,131.46. Since then we have had net withdrawals of \$7,494,874.35 and investment earnings of \$22,727,997.37. This leaves a balance of \$49,912,254.49 or a return of 4.63%. The returns for the last 12 months was negative 4.77% compared to our benchmark of negative 3.46%. The 3 year return was 5.51% compared to our benchmark of 5.32%. This was a difficult quarter for the market and lead to a negative year. The good news is we continue on. Page 7 is a report based on the results through last Friday. Under dollar Weighted Return Net of Fees you notice the performance since inception through January 18. Now we have investment earnings of \$25,129,883.56 compared with the year end on the previous page of \$22,727,997.37. This leaves an ending value of \$52,314,140.68 compared to year end value of \$49,912,254.49. The performance results for the last 3 years has been 9.21% and last 10 years 7.11% through the 18th. Both are above the 6.75% actuarial return target. To the right you see a graph where the blue line represents the total value and the purple line represents the net invested capital. The difference between the 2 values is the \$25,129,883.56 of investment earnings. The next page is the Portfolio X-Ray. This report goes down into all the holdings and gives us a look at what they actually own. The asset allocation section you see the portfolio has 8.54% cash, 58.81% US stocks, 8.03% non US stocks, 23.61% bonds and 1.01% other. To the right you see we are neutral as to stocks sectors. The portfolio investments are primarily in North American. Look at the Investment Style section. The effective duration of the portfolio is now 4.43% for your bond holdings. The equity style box reflects the current style allocation for the equity holdings. The portfolio is 77% equities in large cap, 18% in mid cap and 5% in small cap. We have a slight bias of growth over value. Page 13 is the Position Summary page. This reflects the view of the allocations going down into each holding. Currently we have .8% in cash, 67.8% in equities, 25.2% in fixed income and 6.3% in alternatives. The current yield of the portfolio is 1.7% which provides roughly ¾ of the plans \$1.2 million in distributions. Pages 14-17 are the position pages. On page 14 you will note a new holding under the Exchange Traded Closed End Funds section. The new position is the Oppenheimer S&P Ultra Divide. We added this position on December 27, 2018 to increase our equity holding percentage. This position had fallen during the recent correction. We reduced our equity holdings on July 24th by \$2 million and this brought our allocation down from 70% to 66%. We also reduced our overweight bias to large growth when large growth and value had reached a near record differential in returns. We also received a call during the quarter requesting \$1.5 million. Our allocation now stands at 67.8% equities. The chart on page 18 shows that in 2018 none of the assets classes listed outperformed the inflation. It was a difficult year. Page 19 shows the Time Weighted Performance Summary. We changed our benchmark on June 30, 2016 from 35% equities to 50% with a variance of 20%. This is a custom period of the table following the last 12 months. The results for the last 12 months were negative 4.77% compared to our benchmark of negative 3.46%. The custom period was positive 5.98% compared to the benchmark of 4.68%. The 3 year return was 5.51%, 5 year return 3.77%, 10 year return 6.15% and since inception 4.63%. 2018 came to a negative end and hurt results for the period. Page 20 reflects the returns as of last Friday the 18th. You will notice an improvement. The custom period is now 7.78%, 3 years is 9.04%, 5 years is 5.11%, 10 years is 6.97% and since inception is 5.04%. Note that the custom, 3 and 10 years are all above the 6.7% actuarial target. I want to point out that the ERSOCOL (Employee Retirement System of the City of Lawton) benchmark is due to the HFR Fund Weighted Comp Alternative Index only updating monthly. That is the reason for a dash and not a number. Turn to the chart on page 21. Since we changed our allocation we have reviewed this chart every meeting. We usually end with this chart and I don't think we have had a better occasion to show the effect of volatility and confirm our commitment as a board to ride though it in order to have an opportunity to reach the needed 6.7% actuarial target. We decided our allocations can go up to 70% equities and have been there as recently as July. We are trying to make the 6.75% actuarial number with the least amount of risk over time. With this much in equities we have to remain mindful of the volatility that we will likely go through to earn those higher returns. The quarter ending December 31, 2018 has been the most volatile so far. The chart shows the performance each year for the S&P 500 back to 1980 along with the intra-year declines noticed by the red dots. Notice at the bottom of the chart the median annual return from 1980 has been 12% and the median maximum intra-year decline has been negative 10. In 2018 we had a negative 20% intra-year decline which occurred during the quarter. We believe we are allocated appropriately to have the best chance to meet the 6.75% actuarial return. Thank you for allowing us to be here and I'll be glad to answer any questions.

Petersen asked are the current allocations 50 or 70.

Warren stated the benchmark is 50 with the discretion to go as much as 70% depending on where rates are. A little over 3 years ago we went from 35% to 50% with the ability to go to 70%. Over the last few years because bonds didn't offer much we were mathematically unable to reach 6.75%. This is when we made the change.

Hadley asked are there any other questions.

<u>**Motion** by Petersen, **Second** by Ellwanger</u>, to accept the Morgan Stanley Report. **Aye**: Ellwanger; Hadley; Hill; Livingston; Petersen; Bayones; Dentler. **Nay**: None. **Motion Passed**.

C. Receive Quarterly Employees Refunds Made From Retirement System and Receive Quarterly Statement of Receipts and Disbursement and take action if necessary – Finance.

Tehauno stated as of December 31, 2018 cash in the bank was $1.2 million, total assets of $52 million and our fund equity of $51.9 million. The next page is our Statement of Revenue and Expense. You see our revenue went down by $4.7million due to the unrealized loss. We had expenditures of $1.4 million, a net decrease of $6.2 million with an overall decrease of $4 million for the year. The employee refunds totaled $267,411.64. Are there any questions.

<u>**Motion** by Dentler, **Second** by Bayones</u>, to accept the financial report. **Aye**: Hadley; Hill; Livingston; Petersen; Bayones; Dentler; Ellwanger. **Nay**: None. **Motion Passed**.

D. Receive Actuarial Report from Chuck Dean and take action if necessary – Chuck Dean.

Dean stated we have several items to review today. We review articles in the press, special reports and survey information about public retirement funds. If it is consequential we will summarize it and put together a synopsis of what is going on. Part of this is important papers and newspaper articles. Some are advocates for defined contributions plans and some are advocates against defined contributions plans. There is also information from the Society of Actuaries, various groups and universities. I tend to like the ones from the universities because they are relatively unbiased. Two professors from the University of Chicago did an analysis of rates of return on the stock market. It was a lot of data digging to find out what the rates of returns were to include dividends in the US stock market over a 70 year period. First item is the Society of Actuaries Exposure Draft on Public Retirement Mortality Tables. This is important. Mortality has been studied for years. The earliest was in England and they went to cemeteries noting the dates of births and deaths. With that you can figure out what the odds are of dying at different ages. This was called the North Hampton Table. In the United States mortality is usually done by the Census Department or the Society of Actuaries. The Census Department looks at the mortality of the population as a whole. The Society of Actuaries tries to keep mortality tables that are useful for a specific purpose. What is the mortality of people who participate in pension plans? They are workers so it isn't census mortality. A 2014 mortality table was released and it is not mandated by the IRS for funding private sector pension plans. It is called the RP2014. Until now there wasn't a table that recognized the difference between the private sector and public sector workers. In developing the 2014 table it was noted there were some difference in the data. Essentially all the public sector mortality data was excluded from the RP2014 with the understanding that the society would revisit it and gather all the mortality experience possible. They were to develop mortality tables for public sector employees.

Hadley asked is there reason to believe they would be different.

Dean stated you can see in the write up they are different. It was clear there was a distinct mortality difference by job classification. Teachers have a better mortality than anyone. They have the best with any group you can identify. There was a category of general and that would be your plan. This is not a teacher or someone in public safety. That mortality is pretty good.

Hadley asked and that is the private sector.

Dean stated yes. It is better than the 2000 projection table which we are using for your plan. Then there is a public safety category and it is not as good. There isn't much difference between police and fire. The study looked at the retirees and their mortality is different than those working at the same age. There was a difference in surviving spouses of retirees than the retirees themselves at the same age and gender. There was a recognizable difference in people who are paid more. This was the draft but last week they came out with their final version. I'm impressed with my brethren who wrote this. There are quite a number of tables they have developed. There has been 3 projection approaches developed over the years. One is Scale AA and this is the one we are using for your plan. It projects mortality out to improve year after year. Mortality for a 70 year old today is different than 10 years from now. All of that is built in. Then there was a scale BB. This was developed because they thought mortality had improved a little faster than in AA. After developing this scale it seemed to revert back. BB was trying to recognize that mortality was a little better and it hasn't worked out that way. We have done a study on the effectiveness of mortality for you which we present on a pro forma basis. We are not adopting this for this year's evaluation. We will probably need to next year. From an audit standpoint we have to show the assumptions and from a professional standpoint to recognize mortality. This is new information. It has always been there but never analyzed. No one is big enough to make their own mortality table. Then we have GASB 67 Disclosures. GASB 67 shows assets and the pension obligation calculated using the discount. It doesn't matter how you are funding your plan or what the actuarial report looks like. It says you will use the cost method of entry age normal. GASB 67 says the discount rate you use is the long term rate you are assuming or a lower interest rate. GASB requires you do a closed group projection to see if you would run out of money. The closed group projection can project you will run out of money in 20 years. In real life that wouldn't happen because of the new hires. You are allowed to include other specific moneys that the employer is making that will go toward the service cost. On that basis with the Tier II approach and the 6.5% contribution from the defined contribution you don't have a depletion date in the future. Since we don't have a depletion date we do not have to use the municipal bond rate for any part of the liability. The GASB 67 actuarial liability is exactly the same as in your funding report. This is the bound report. This is an actuarial evaluation to develop the contribution that should be made if you were to meet a 30 year funding standard amortizing the unfunded liability over 30 years by level dollar amounts. The contribution the city should make to meet the 30 year funding standard is 17.96% of payroll. You are not making that contribution and the contribution that have been calculated in these actuarial report show you have never made the contributions for years. The Tier II idea was an approach to solve the funding issue over the long term without affecting the current employees at all. You can always solve the problem and fund the plan with more money. Tier II are employees hired after 2011 and as of July 1, 2017 the city adopted a Defined Contribution Plan for all new hires. The Tier II employees are declining because some have left their employment. The City is going to contribute 6.5% to the fund for all Defined Contribution employees. That is ultimately the salvation. An actuary would recommend more money but you are progressing. This is not a slam dunk guarantee but it is more likely to work than not to work.

Hadley stated and it was better than the path that we were on.

Dean stated yes. It is likely to be a success story overall. It is not a guarantee and we need to monitor it carefully. In the highlighted section at the top is a chart that shows over the last several years the funded level of the plan. Funded level is assets divided by the liability. The liability depends on the cost method you are using. Not all cost methods gives you the same liability. As of July 1, 2017 you had funded 73%. So the assets are 73% of the liability. If everyone walked out the door and was paid what they earned you could pay 73¢ on the dollar. You hope the Tier II and the 6.5% works out and that the percentage keeps going up. It is fundamentally encouraging but it is not a lock down guarantee. There is also the projected benefit obligation. This is the cost method you were formally using. It is a cost method that is required in the private sector under GASB. It recognizes that everyone is not walking out the door. Finally we have the Accrued Liability Entry Age Normal. This is very much like a whole life insurance. You pay a level amount for your life. You are overpaying when you are young and at a certain age are underpaying. You have built up this reserve and the level pay ultimately proves the benefits. This is the concept that is in entry age normal. The assets here are as of July 1, 2018. We described in the highlights some other factors. Good news is you had a nice rate of return for the 12 months ending June 30th. You were at 9% and that is above the 6.75%. Since the city didn't put in what they needed to you have a negative. There is a picture on page 2 that shows the total participants in the Tier II. Before the DC plan the Tier II participants were increasing and Tier I were retiring. As of this evaluation there were 189 Tier II, 237 Tier I and 426 total participants. We are very much dependent on the contribution of 6.5% from the DC employees. In the recommendation we are telling you that you are putting in 10% and this is only sufficient if assumptions are realized. It depends on contributions from Tier II and Defined Contribution for it to be sufficient. The report has a pretty good summary for plan provisions. We have assent information and we look at it different than your investment managers. They are concerned with where to put the money. We look at the historical rates of return, dollar weighted return and market value. There are a lot of details on pages 8 and 9. It shows a summary of benefits being paid, contribution being made investments earning realized and unrealized, depreciation and so on. The Plan Funding Requirements start on page 10 with an exhibit on page 12. The required contribution for the upcoming year is 17.96% of participant payroll. Remember if the participant payroll is down it's not going to necessarily increase each year. If the Defined Contribution employees are not there you have fewer people which means payroll goes down. This is an effect to basically closing the plan to future participation. Then we have information from GASB 25, 27 and 36. On page 17 you see the percentage that the city contributed of the required 30 year funding contribution and essentially the city has never contributed that amount. It has always been less. GASB 27 is concluded on page 20 and it doesn't apply anymore just GASB 67. For your financial accounting there is GASB 68 and that is your pension expense regardless of what you funded. It's just like accrual accounting. Here is the cash and here is the accrual and they aren't the same. Retirement plans are a major example of where cash account and accrual accounting aren't even. We still include GASB 27. We carried it forward because it shows why you are where you are. It said you should disclose if you have contributed and treats it as a liability. It is a liability for disclosure. You created something called Net Pension Obligation. Today this doesn't exist but it did until GASB 68 and it is meaningful. It is an interesting measure. Someone might ask how much the city had short changed in their contributions and as of June 30, 2018 it was $14 million. There should have been that much contributed if you were to stick to the 30 year funding. If you had the additional money then 10% funding by the city would probably be okay. There is a lot of census and demographic information showing the number of people, ages and that you are paying service retirees an average benefit over $21,000 a year. That is the rock bottom purpose of having the plan. It is lifetime retirement income for employees and what we all want. You are a fortunate person if you have a real pension of lifelong funding. 401K plans is where 2/3's of the money is employees money and you don't end up with much money. A couple hundred thousand when you retire is not a lot of money. People underestimate how long they may live and that isn't enough money for someone who lives to be in their nineties. We have a one page pro forma sheet that shows you side by side the actual results of the evaluation. It says a 30 year funding requirement the city should be putting in is 17.96% of payroll. If we were to use the public retirement mortality 2010 table it would increase the required 30 year funding from 17.96 to 19.5. That is a noticeable effect and we need to be prepared for it. Those are the key things I want to mention. Are there any questions.

Hill asked is the Council aware of this stuff. Is there a way to make them aware of this?

Hadley stated they have not been made aware since the changes they made when going to a Defined Contribution Plan. There is a process where we can do a report to Council and make a recommendation. This would be a good time of the year to do so because we are about to start the budget process.

Hill stated whether they can do anything or not they need to be aware of the shortfall.

Hadley stated that is a good point.

Dean stated they need to know that the 6.5% is essential. That is why they were able to approve the Defined Contribution Plan. If not you are creating a big problem and accelerating the problem.

Hadley stated correct. We just recently had a Council change and a new Mayor so it would probably be a good time to go in and talk about those things. We need to reintegrate in a public forum that the 6.5% has been committed to by previous Council and is absolutely necessary to keeping our pension system a float.

Hill asked can you summarize by saying it is improving but at a slower rate due to the Tier II.

Dean stated it is improving and it won't be slower if you get the 6.5%. The investment issues are always there. The difference from Defined Benefit versus Defined Contribution is Defined Contribution is safe for the employer.

Hadley stated we are shifting all the risk to the employee.

Dean stated yes. The employees have all the risk with no information and what they do have isn't very useful. The Defined Benefit approach gets the employee exactly what they need with a lifetime retirement income and the employer taking all the risk. If it helps retain people it is well worth the risk.

Hadley stated studies show that Defined Benefit plans keeps employees longer than Defined Contribution plans.

Dean stated and also you have longer vesting. It is all geared to paying the career people and that is where the money goes.

Hadley stated thank you for being with us today.

Motion by Livingston, **Second** by Ellwanger, to accept the actuarial report. **Aye**: Hill; Livingston; Petersen; Bayones; Dentler; Ellwanger; Hadley. **Nay**: None. **Motion Passed**.

E. Receive Audit Report from Finley and Cook and take action if necessary – Finley & Cook Representative.

Bledsoe stated I'm Dan Bledsoe. I have handed out 3 documents for review. Two are letters and then a large bound document. Starting with the letter that states The Auditors' Communication with Those Charged with Governance. This is stuff we are supposed to communicate to the Pension Trust. I will hit the highpoints for the audit ending June 30, 2018. This year we had to list several accounting standards and you have been very active. There were a few things the system technically adopted during the year but there was no change on the financial statement presentation. GASB 75 was a new item this year which impacted the city but not the pension. The Audit Adjustment is basically the trial balance from the accounting group. Your audit procedures are comprised of a different schedule that we call Audit Adjustment. There were a couple of items this year. One was in the contribution receivables and a smaller adjustment made for accounts payable. We will talk more about that later. There were a couple of items that were included and doubled up and we did an adjustment to lower the payable. In terms of working with management they were great to work with. We received all our requests. There were no conflicts or disagreements with management when performing the audit or how accounting standards were implemented. No fraud or violations of laws or regulations and that is a good thing. We did have one item of significant deficiency under Internal Controls and we are required to communicate that to you. We touched on that and a couple other smaller items in the other letter. Overall the audit process went well. We call the second letter the Management Letter. When we do our audit procedures if we identify things from the control structure that we can gain an understanding into we will communicate this in the letter. I mentioned the significant deficiency item and on page 2 we talk about that. In May 2018 until June of 2018 when the city processed payroll and moves the contributions into the system there was a delay that was identified in 5 payrolls. We had to bump up the contributions receivable because those dollars had not been moved over into the system. Even though the system is not subject to ERISA there is a big emphasis on withholding funds of the employee. You want their dollar moved in a timely manner so it can be invested. There is a concern about lost investment income and there could be a difference based on the withdrawals from the plan. We talked with Human Resources and they have provided a corrective action plan going forward. Within 1 week of the payroll date they are to get those dollars moved going forward. I will note that we have done the audit for a while and this is a first for this particular item. In doing our testing it required us to book the adjustment to get the contribution receivable up. On page 3 there are a couple of smaller communication items. Part of our procedure is to select a sample of retirement payments and look at the recalculations. The criteria we use is compared to what is required under the plan to see if there is any difference. We picked 20 individuals for the 2018 audit. Of the 20 we had 4 differences and you see those bullet points. In some case it may be the total number of payroll periods that was used or an age difference. So the individual dollar amount for those folks weren't large individually but we were just doing a sample testing so we did have concerns on any additional ones. We provided those details to HR asking they look into determining if there were any corrections that needed to be made. The second item was due to accounts payable. We did have an adjustment that we made to the original trial balance basically identifying withholdings from one of the last payrolls as kind of a double up and there is a liability. It had been accrued properly but there was a second one of the same amount. That needed to be reversed. Then there was the biggest part of your payable at the end of the year refunds. That is as soon as someone departs employment you go ahead and accrue the liability. If there is a check cut it ought to come out of the liability. There were 2 individuals where their checks was cut before June 30th and they were still on the amount that was accrued. There needed to be an entry to reverse that. The key there is to be looking more at the detail of these particular items when you are doing your year end close.

Livingston stated it is odd that we pulled 20 individuals and 20% had problems. Did you expand your testing?

Bledsoe stated we choose not to because the differences were really small. If it had been something larger or a really big change we would have. Historically we haven't had this issue so we choose not to expand. It was significant enough that we wanted to get it communicated to you and to get the details to HR so they can investigate and make any corrections that might be needed.

Livingston stated I'm kind of concerned. We ought to be more consistent in calculating our retirement and refunds. Have they made any suggestions on how they are going to resolve the problem?

Bledsoe stated there is a corrective action plan on the next page.

Livingston stated that is dealing with a half a million.

Hadley stated I believe that falls on staff at this point.

Bledsoe stated next year we will do some follow up procedures.

Petersen asked what was the size of the total universe.

Bledsoe stated I would have to go back to my work papers. It varies from year to year based on the number of retirees.

Dean asked did you say that you did 20.

Bledsoe stated yes.

Dean stated that is a good sample for the number of retirees you have.

Bledsoe stated I believe there are 230 retirees as of June 30, 2018. That is not all new retirees for the year. That is accumulative.

Livingston asked what was happening on the other issue where they were not transferring the contributions/collections.

Hadley stated we can talk about the issues now or after we accept the report.

Livingston stated we need to talk about them.

Hadley stated absolutely. HR pulls the money from the payroll for the pension system and then finance cuts a check. Finance sends the check back to HR and then HR deposits the check. The previous payroll clerk, who had a lot on her plate at that time, put them in a drawer and they sat there for 5 to 6 weeks before they were deposited.

Livingston stated okay, we can talk about that later.

Bledsoe stated they were deposited after June 30th.

Warren asked how many of the 4 were caused by those differences.

Hadley stated those are different issues. Our pension calculations are done by hand and done by the payroll clerk. We are going to explore and potentially suggest to the Trust to purchase a system that calculates those for us. We would plug in the basic data of hire date, date of birth and retirement date. The system would do the calculations and eliminate these kinds of mistakes by staff. Dean, can you talk about the system.

Dean stated if you update payroll information each time it is done you can go online and it will calculate your pension with the coded formula. It will show you all your options. If someone puts in the wrong information the calculation will be wrong. The employees can go online and do the calculation themselves.

Hadley stated this would take the place of the annual Notice of Personal Benefit Statement. This would also take a load off the staff. The City of Lawton was engaged with a company, Ceridian, for a capital software program to include payroll. There have been numerous challenges in trying to get it to match our needs. Their payroll system was developed for the private sector and they don't typically have as complicated payroll. Police is different than fire and fire is different than shift workers. Since it hasn't worked out the City has given notice that we wish to stop and not engage any further. That system was part of the corrective plan for the future. We will still be looking for this type of software but it won't go into effect in April or July. It will be a year of so down the road. This program would be beneficial to the City of Lawton.

Ellwanger stated so that answers the deficiency questions that were brought here in the letter. This is what you are referring to.

Hadley stated correct.

Ellwanger stated there was an under payment to one of the retirees of $65. Do we pay that?

Hadley stated I assume that has been corrected.

Wick stated it has.

Ellwanger stated thank you.

Bledsoe stated let's go to the Financial Statement. Pages 1 and 2 are the independent auditors' report. As stated earlier we didn't have any issues. The management's discussion and analysis is based on this information and we don't render an opinion on that. That information folds out of the financial statement. Pages 3 and 4 are the actual financial statement. We are looking at the assets and the accounts payable for the system. The actuarial calculations of the total pension liability is posed more for the city. The information is disclosed here but that liability doesn't show on the financials. On page 3 there are 2 things to point out. You notice the cash and cash equivalents you had a little over a million last year. It basically shows zero this year because technically a net overdraft is shown of about $54,000. That is a result of the contributions not coming over. Your receivable section shows your employer/employee contribution total $600,000 compared to $100,000 the prior year. That is due to the payroll buildup that wasn't sent over until after June 30, 2018. Page 4 is the Statements of Changes in Fiduciary Net Position. That is an income statement for 2018. This shows your total employer/employee contributions on an accrual basis, what the investment income was and the deductions of benefits paid. There are a couple key things to look at. 2017 was a huge year on the investment income side and this is pure return. This is your investment return. 2018 was a lot of net investing of $4.7 million and that was a little less than the prior year. The change in fiduciary net position is what we call the net income for the year. That is how much your equity or net pension increased for the year. There was about a $3.2 million increase from the prior year. As noted in the foot notes we had a few new accounting standards adopted that didn't have any accounting impact on the presentation. The footnotes are the same presentation as in the prior year. The RSI schedule on Exhibit 1 on page 22 is a good piece of information to look at. It ties together the stuff Dean talked about on the actuarial side. The top section is the total pension liability calculation. This is saying using various criteria for 2018 the total pension liability is $88,924,765. The second section is the system's fiduciary net position. That is the audited financial income statement. It compares the 2 and shows what the deficient is. I like the way this is listed because you see the prior years and can get a good picture to see where you are going. We had really strong investment returns for 2017 and 2018. Cost to almost $11 million for the 2 years. Your net pension liability actually dropped back down to where it had spiked in 2015 and 2016. Are there any questions.

Petersen stated back to my question about the universe size. This 20 sample size is that based on the 233 total.

Bledsoe stated no, just on new retirees.

Petersen asked so how many new retirees were there. Twenty out of 233 is a very small sample.

Hadley stated 40 maybe.

Petersen stated then it becomes a very significant size. The comment made earlier about looking further might have been very appropriate.

Bledsoe I can get that information for you. I apologize I don't have those work papers handy.

Rother asked is that not built into the report.

Bledsoe stated no.

Hadley asked how many retirees were included in this quarterly report.

Bayones stated 4.

Hadley stated with only 4 in this report I feel 20 was a very large sample size. Are there any other questions?

Motion by Livingston, **Second** by Bayones, to accept the audit report. **Aye**: Livingston; Petersen; Bayones; Dentler; Ellwanger; Hadley; Hill. **Nay**: None. **Motion Passed**.

Hadley asked in regards to the retiree software how does the Trust feel about purchasing this type of program.

Livingston stated I would be for it if the cost is reasonable and if it were something the new payroll system didn't do.

Ellwanger asked at this time we are doing it by hand.

Hadley stated yes.

Ellwanger stated I don't know the cost but it sounds very likely we should consider it.

Hadley stated it would certainly be more efficient.

Livingston stated something is happening when you go for 2 months before you see you have a half a million sitting around. This tells me what kind of system you have and we need to move up. Can Dean's program take information from our system or will it have to be manually fed. If we have to feed it there is always the danger of it being inconsistent with what we have.

Hadley stated it is only as good as the data that goes in. I'll look into this matter and bring it back to you at the next meeting.

Livingston stated staff does a good job but every once in a while you start seeing smoke.

Hadley stated in some ways this was a management/system failure and not just an employee's mistake. The employee certainly knew better than to put a check in a drawer and forget about it. It probably deals with the work load and not having payroll staffed appropriately. We take some responsibility for what happened. There are checks and balances in place now to ensure this doesn't happen again. We determined that a timely manner should take no more than 1 week from the time the check is cut to the time it is deposited. I believe this was a onetime issue. Thanks for your input.

IV. Old Business

A. Discuss and Set 2019 Yearly Meeting Schedule.

Ezell stated as we discussed at the last meeting Petersen is unavailable for the months of July and October. We discussed changing the dates for those 2 months.

Petersen stated I fly the airplane in Frederick for the World War II demonstration team. Those dates are scheduled years in advance.

Hadley stated maybe we change to a different Thursday. We will have a quorum so we don't have to change. Petersen felt bad about accepting the position and only being here for half the meetings.

Livingston stated my schedule is free any time.

Bayones stated I don't have an issue with changing the day. I would say to calendar it for the fourth week to make certain finance has time to get their stuff completed.

Hadley stated we could go for the 31^{st} in July and October.

All agreed.

Petersen stated I appreciate the consideration.

Motion by Ellwanger, Second by Dentler, to approve rescheduling the quarterly meetings in July and October to the 31st of both months. **Aye**: Petersen; Bayones; Dentler; Ellwanger; Hadley; Hill; Livingston. **Nay**: None. **Motion Passed**.

V. Consent Agenda

FOR THE BENEFIT OF THE AUDIENCE, ALL MATTERS LISTED UNDER THE CONSENT AGENDA ARE CONSIDERED TO BE ROUTINE BY THE PENSION COMMISSION AND WILL BE ENACTED BY ONE MOTION. THERE WILL BE NO SEPARATE DISCUSSION OF THESE ITEMS. IF DISCUSSION IS DESIRED, THAT ITEM WILL BE REMOVED FROM THE CONSENT AGENDA PRIOR TO ROLL CALL AND WILL BE CONSIDERED SEPARATELY.

Bayones stated I would like to pull Item D.

Motion by Petersen, **Second** by Hill, to approve items A, B, C, E, and F of the consent agenda. **Aye**: Bayones; Dentler; Ellwanger; Hadley; Hill; Livingston; Petersen. **Nay**: None. **Motion Passed**.

A. Consider Memo of Information regarding the death of employee Edward Sockbeson.
B. Consider application for normal retirement from Vernal Hairston.
C. Consider application for normal retirement from Diane Graeber.
E. Consider application for normal retirement from Bobby Finley
F. Consider approval for the paid-in-full judgments to be released from the record.

D. Consider application for normal retirement from Anthony Griffith.

Bayones stated I wanted to bring this to everyone's attention since we are having auditing deficiencies and miscalculations. This shows another reason for needing a program in place. Human errors are beginning to pop up a little more often. Look at Anthony Griffith's benefit option selection. He selected 10 Year Certain so the miscalculation doesn't affect his retirement. Under Joint and 2/3 Survivor you see the amount has an extra digit. I gave the information to Ezell who stated she would forward to the appropriate person to have it fixed. Even though this is not something he is actually being paid it is just another example we need to look at automating and stop expecting 1 person to do everything.

Ezell stated I did forward this to the payroll clerk and she stated she would correct the error. Another concern Bayones had was usually there isn't a big difference between the dollar amounts and in this case there is.

Hadley asked do we want to table this item until we have the corrected paperwork.

Bayones stated we probably need to table it until it has been corrected.

Motion by Bayones, **Second** by Dentler, to table Item D of the consent agenda. **Aye**: Dentler; Ellwanger; Hadley; Hill; Livingston; Petersen; Bayones. **Nay**: None. **Motion Passed**.

VI. Comments

Hill stated I'm in the mindset of resigning from the Trust. It is getting harder and harder for me to be away from home. I'm willing to serve until we get someone appointed.

Hadley stated we appreciate your service and hate to lose you. You have been a long dedicated member of the Trust and we appreciate everything that you have done.

Hill stated I have truly enjoyed it. I've been with this group for almost 20 years and I don't recall getting into any tiffs. Everyone has always been so thoughtful and easy to work with. It has been a real pleasure. I do know that Cherry Phillips had shown an interest in servicing.

Hadley stated I will contact her if everyone is okay with that.

Ellwanger stated I think that would be marvelous.

VII. Audience Participation

VIII. Adjournment

There being no further business the meeting adjourned at 10:55 a.m.

Motion by Livingston, **Second** by Bayones, to adjourn. **Aye**: Ellwanger; Hadley; Hill; Livingston; Petersen; Bayones; Dentler. **Nay**: None. **Motion Passed**.