



City of Lawton

Pension Trust Commission

Lawton City Hall
212 SW 9th Street
Lawton, Oklahoma
73501-3944

Minutes

Tuesday, April 8, 2025

9:00 AM

Lawton City Hall
3rd Floor Conference Room

Roll Call

Chairman Bayones called the meeting to order at 9:00 A.M. in the third-floor conference room of City Hall.

ROLL CALL

PRESENT: Paul Ellwanger, Teri Bayones, Ed Petersen, Christine James

ABSENT: Jace Zacharias, Richard Rogalski, James Apple

ALSO PRESENT: Tammy Branstetter, City Clerk's Office; Craig Akard, Human Resources; Kristin Huntley, Financial Services; Kaitlin Nunley, Financial Services; Tim Wilson, City Attorney's Office; Perry Warren, Morgan Stanley Financial Advisors; Chad Rother, Morgan Stanley Financial Advisors; Dan Bledsoe, Finley and Cook CPAs

Introduction of Guests

No guests were introduced.

New Business

1. Consider approving the minutes of the January 23, 2025, meeting.

A copy of the minutes of the January 23, 2025, meeting may be obtained from the City Clerk's Office upon request.

Motion by Ellwanger, **Second** by Petersen, to approve the minutes of the January 23, 2025, meeting. **AYE:** Ellwanger, James, Petersen, Bayones. **NAY:** None. **MOTION PASSED.**

2. Consider accepting the annual audit report of the City of Lawton Employee Retirement System for the fiscal year ending June 30, 2024.

Dan Bledsoe, Finley and Cook CPAs, presented the annual audit report of the City of Lawton Employee Retirement System for the fiscal year ending June 30, 2024.

Bledsoe said I believe two documents were issued. The audited financials are probably the bigger one that was shared up front with you. I'll probably start with the shorter one—the communication letter. I usually go through that because it includes some required elements under auditing standards that need to be discussed with the board. It also gives a brief recap of the audit results. Then we'll move into the larger document, which is the audited financial statements themselves.

Bledsoe said as mentioned, this was the June 30, 2024 audit for the pension plan, and we issued an unmodified opinion—a clean opinion—basically meaning the financial statements are presented in accordance with generally accepted accounting principles. Since the pension is a governmental entity, it's subject to GASB standards. There wasn't anything new this year that impacted the presentation or disclosures. GASB has been active, but most of the things they've issued affect more of the city's financial versus the pension's financial statements, so nothing has changed with that.

Bledsoe said one of the things we always have to discuss in the communication letter is management estimates in the audited financial statements. Consistent with prior years were two primary things. One is the fair value of investments. We always do test work on that and send a confirmation to verify directly what the balances were at the end of the year. We did our usual test work on investments, sending out confirmations to directly verify year-end balances. We'll do some verification too with a third party like Yahoo Finance, or something like that, on a sample basis just to make sure the values at the end of the year match up. We reviewed the SOC report for your third-party investment handler, which evaluates their internal controls. Everything looked satisfactory, and we had no issues. Based on our testing, no changes were made to fair values, and we were comfortable with how those were reflected in the financial statements.

Bledsoe said the second area is the actuarial assumptions. Of course, Dean Actuaries has done the calculations for you guys for a number of years. So what we really do with that is kind of twofold. One, we look through Chuck's report to make sure the assumptions that he's using are consistent with the prior year and seem reasonable. There were no significant changes to the assumptions this year. The discount rate has remained consistent for several years. We also tested a sample of the census data used in his calculation, checking things like age and sex against the city's records. We then confirmed that the data Chuck received matched those records. There were no discrepancies, and we felt comfortable with the data being used for the actuarial calculation.

Bledsoe said a few other key things we are required to report on include whether there were any difficulties working with management, challenges in obtaining information for our testing, or disagreements. We didn't have any issues to report this year. In past years, some of those issues had caused delays, but this year we received everything we needed from internal records, including the cash allocation schedule, which had previously been a challenge. We had no issues this year, and management was great

to work with, getting us everything in a timely manner. As a result, we were able to get caught up.

Bledsoe said the letter—along with our independent auditors' report—includes what we call an “emphasis of matter” paragraph. This has been included for probably the third year in a row and relates to an ongoing issue that remains unresolved, so we’ve included that emphasis of matter mainly because the issue still isn’t fully settled. The main point of including the emphasis of matter is just to highlight that the issue still exists and that it could have an impact on the plan’s financials once it’s all settled and determined.

Bledsoe said as far as audit adjustments, we had a few reclassification entries—just to make sure things were in the right bucket, so to speak. We had maybe one small actual audit adjustment, which helped ensure that the net position, or equity, rolled forward from our prior audit. Now that we’re caught up in the current year, once we finished the audit, we provided the finance group with the adjustments that we made so they could enter them into the city’s records so that basically everything will match the adjusted audit financials.

Bledsoe said the last item in the letter I want to touch on—something I discuss each year—is whether we identified any material weaknesses or significant deficiencies in the internal control structure. We’re required to report those. We didn’t have anything to report for this year. As we’ve discussed in the past, the auditing standards require us to gain an understanding of how benefit payments are processed, how contributions come in, and all the other key processes involved. We look at the design of the internal controls and ensure there is adequate segregation of duties or compensating controls. We also perform sample testing to make sure those controls are not only designed properly but are functioning as intended. If there were issues with either the design or the results of our test work, we would have to report those. We didn’t have any issues this year, so we felt comfortable with how that was set up. We also have to report if we identified any instances of fraud, and based on our testing, we didn’t identify any fraud issues. If we come across any illegal acts or violations of law that we become aware of as part of our test work, we’d be required to communicate that to the board, but we didn’t encounter anything like that this year either.

Bledsoe said overall, even though the timing was a bit later than ideal, we were able to get everything done. I’m not sure if the city has formally completed its FY24 audit, but I believe they were close. I know the finance group seems to be back on track and where they want to be. I believe we’re now in our third year under the hard agreement, and we plan to schedule the FY25 audit probably around October of this year, aiming to have it done by the end of 2025.

Bledsoe said let's jump over to the financials. I’m not going to go through everything in them—there’s obviously a lot of information in there—but I’ll touch on some key points. If there’s anything I don’t cover that you’d like to discuss, let me know and we can talk about those.

Bledsoe discussed pages 1-3 of the audit report. He said as mentioned earlier, we issued an unmodified or clean opinion. That section is where our audit opinion is formally rendered. The rest of the report lays out our responsibility in performing the audit, as well as management's responsibility for producing the financial statements and ensuring they're presented in accordance with GAAP. It basically recaps that whole process. As I mentioned, page one also includes the emphasis of matter paragraph in the independent auditor's report. We wanted to make sure this was brought to your attention.

Bledsoe said following the auditor's report is the MD&A (Management's Discussion and Analysis) which spans pages I-1 to I-7. This section is required by GASB standards to be presented with the financials, though it's technically not part of our audit opinion. The MD&A allows management to recap the results of the year in more plain English. Our main responsibility with this section is to ensure any numbers included reconcile to the audited financials. There are some tabular things showing assets, liabilities, contributions, or benefit payments, and we make sure all of that is reconciled to the audit. We didn't see anything that contradicted the financials during our review.

Bledsoe said that brings us to page four, where the actual financial statement numbers begin. Page four is the Statement of Fiduciary Net Position. This is your balance sheet as of June 30, 2024. It's presented on a comparative basis, so you can also see figures from June 30, 2023. There are two key things I'd like to point out. First, the cash equivalents at year-end. This can fluctuate depending on when funds are moved between investments and cash. At the end of 2023, there was actually a negative cash balance of about \$192,000. But by the end of 2024, more cash had been flushed over, and so you actually had almost \$1.5 million positive cash. The other thing I want to point out is in the middle section of the page, where you have the investments reflected at their fair value. You can see that investment performance has continued to be strong. We've had a couple of good years, and even though 2023 was already a strong year, it continued to increase. We were almost \$3 million overall combined in your total investments. A key thing to point out is that under GASB standards—specifically GASB 72, which has been in effect for about 10 to 12 years now—investments are required to be reported at fair value. With fair value, you have to adjust your investments and reflect them at their fair value as of the reporting date. Any changes related to that fair value go through the income statement. So, as the markets perform well, you'll see an increase not only on the balance sheet side but also in earnings, including realized gains and losses. So far in fiscal year 2025, we've seen a bit more struggle in the markets, and depending on where things settle, you may see those numbers go down. That's just how the fair value model is set up.

Bledsoe said you'll see this reflected if you look at the next page, which is page five—essentially your income statement, titled the Statement of Changes in Fiduciary Net Position. Overall, things were positive in that area. Contributions, although there has been a bit of a lag, were still up about \$100,000 year-over-year in contributions in 2024 compared to the prior year. Investment earnings were very good, coming in at

approximately \$8.7 million net of expenses, compared to \$6.1 million in the previous year. So there was almost a \$2.5 million increase year-over-year. A large portion of that came from the change in fair value and unrealized gains, which totaled nearly \$6.8 million for the year. So overall, fiscal year 2024 was a very strong year in terms of return.

Bledsoe said in the deductions section, benefit payments did increase year-over-year, which is expected as the retiree group grows older and more individuals begin drawing benefits. Actual refunds of contributions—when employees leave early—were slightly lower, about half of what they were in 2023. These are hard to predict since it depends on when individuals choose to leave city employment, so the timing can vary.

Bledsoe said the main line item to note on page five is the “Change in Fiduciary Net Position,” which came in at almost \$4.4 million. This represents the increase in equity or, more or less, your net income for the year. With the strong market performance and the increase in contributions, overall it was a good year for the pension in building up your net position.

Bledsoe said after that, we move onto the footnotes, and there are three or four specific ones I want to touch on. If we go back to page 13, you’ll find the section on investment disclosures. While the investment categories are already broken out on the balance sheet, this section aligns with GASB 72, which requires you to disclose the level of judgment involved in determining fair value. Level one refers to investments with a readily available market price—for example, mutual funds that are actively traded. These are easily verifiable at year-end. Level two investments may not be actively traded but have comparable items - in this case, they’re basically three or four government agency investments we’ve had for quite a while. Level three is labeled as “other investments” - that’s basically the judgments that you guys have worked with the city on. They don’t have an active marker or comparable type of investment, so they fall into the level three bucket. So levels one through three indicate a progression from less to more judgment required. These categories were consistent with fiscal year 2023. We always look at your improved investment policy as well, just to make sure the percentages fall within the allowed buckets, so to speak. There were no issues with that in 2024, so the investments were within the allotted percentages that you’re allowed to do.

Bledsoe said on page 14, in the bottom section, you’ll find a multi-page disclosure starting with the net pension liability. As mentioned earlier, Chuck Dean performs the actuarial valuation and calculates the total pension liability using census data and a variety of assumptions. That figure increased to nearly \$102 million at the end of 2024. The fiduciary net position—basically what the system has available, reported at fair value in accordance with GAAP—is subtracted from the total liability. That difference is the net pension liability, which is the portion the city is responsible for carrying on its books. We also disclose the fiduciary net position as a percentage of the total pension liability. That funding ratio improved year-over-year—from just under 57% at the end of 2023 to a 59% funding level at the end of 2024. Of course, the challenge with that is

one of the key differences between what the actuary tries to do with investment earnings and what GAAP requires in its disclosures. Actuaries tend to smooth out investment earnings over time. Basically, if you have a big year, they don't take it all in one year like GAAP does—instead, they level it out over a five-year period. As a result, the funding level can look a bit different if you're looking strictly at the actuary's figures compared to what GAAP requires for disclosure. So, you tend to see a little more fluctuation under the GAAP basis. For example, in a strong year like 2024, the funding deficit might shrink significantly. But if there's a sharp drop-off the following year, that deficit could increase again. In contrast, the actuary's approach smooths those changes over a five-year window, focusing more on a long-term outlook.

Petersen said you've talked about this before, but practically that's a meaningless figure.

Bledsoe said to a degree—yes. But the key, from the actuary's standpoint, is that they're obviously looking at the long-term horizon. So in the short term, as long as you've got enough people paying in—combined with the employer's contributions—and you've built up investments that can generate dividends and earnings, you can ensure things stay on track.

Petersen said for a corporation that's on the verge of bankruptcy, that becomes a very meaningful figure.

Bledsoe said that's correct. You haven't benefited the City having a long horizon, and hopefully being able to adjust down the line if additional funding is needed to make up that gap. Really, all you're mandated to do is pay your retirees—those coming up in the next year or two—and make sure those short-term obligations are covered. As of now, if you look at the end of the year, based on your investments, the available cash, and the contributions expected in the next year, yes—you're in good shape. But what the actuary is required to do is take a longer-term view. They consider the impact of an aging group, more retirees, and the fact that people are living longer. All those factors come into play. When we approve the benefits going back a number of years, that horizon kind of changes, and so that's where you end up with the deficit piece of it. I think I've mentioned in prior years that we audit many of the larger state pensions. We handle firefighters and police. Police are close to 100% funded—likely helped by stronger lobbying that results in higher contributions. Firefighters are roughly at the 70–75% funded level. We don't audit the teachers' system, but I believe they've lagged behind a bit in the past compared to others. At the city level, you definitely see more variation. For individual cities, it's more of a challenge—they may not have as much of a revenue source as the state does if they need to increase contributions. So I definitely agree that this has definitely got assumptions in it, and there are actuarial aspects to that.

Petersen asked how other cities compare.

Bledsoe said I'm trying to think—most of our groups are now in OKMRF, so they don't

really have that on their books to be audited. I believe you guys are the only ones now. We did have another city we audited, but I think we rotated off of them about three or four years ago. So I can't give you great information on that, since we don't really have other large cities still doing it. Most cities are either moving to the DC plan through OKMRF, or they just figured out that they were funded enough so that they could hand the DB plan over to OKMRF. That could be something for you to consider as well, but I think they require at least a minimal funded level—maybe 70% or 75%. So that's probably an option to look at down the line if you can kind of catch that up. Also, I made note of this—after June 30, 2024, there was a subsequent event where it was approved to increase contribution rates for both active employees and the city. I believe it's roughly a 1% increase on each side. That will certainly help. To do that, the city used—though not directly—some additional ARPA funds they received about three or four years ago. They adjusted the budget to allow for contributions beyond just the mandated percentage. I think that happened in 2024—so last year. They broke that additional contribution into four increments of about \$170,000 per year, on top of the mandated percentage rate. So I know they've made some efforts. It's always a challenge with the budget and everything the city is trying to manage. We're not fully familiar with all the details of how they've handled it, but I'm sure they're aware that additional funding is needed.

Ellwanger asked if the net pension liability is a separate line item on the city's balance sheet.

Bledsoe said it should be - I would expect that it is. Their auditors probably used some judgment on how significant it is. That's a pretty sizable liability, so I'd say that's probably the best way to look at it.

Kristin Huntley, Financial Services, said it is a separate line item.

Bledsoe discussed page 17 of the financial report. He said we've had this for a couple of years now: a contingency disclosure that ties in with what we just discussed. There are two items. First, we mention the computation issues that were noted and whether there's any potential liability. My guess is the City would probably be the one to settle that once it's determined. It may not even flow through the pension—though I don't know that for sure. We likely won't know until a final number is determined, and we evaluate the asset side to figure out who owns what and how they'll handle it. So we continue to include that disclosure, just to acknowledge that the issue is still out there. The second item is the contribution rate shortage, which has been present ever since I inherited the audit—going back about 10 years now. There's a back table that lays out information the actuary provided—based on their calculation of what the contribution would need to be in order to reach a 100% funded level versus what was actually contributed. That's what this disclosure relates to. Even with the increases that have already happened, based on what the actuary recommends, there's still a deficit. Now, actuaries are kind of like dentists—they always want you to brush three times a day. They'd love it if you could just instantly fund everything and make up that shortfall. Still, they're doing their due diligence by raising that to your attention, and you're aware that

additional contributions would be needed to fully catch up. The last item I mentioned earlier is on page 18 under footnote 9—subsequent events. It notes that contribution rates were increased for both participants and the City, effective at the end of September 2024. So those increases should begin flowing through in FY25. Hopefully, that will result in higher contributions coming in.

Ellwanger said our total pension liability has increased year after year. I'm looking at your page 22, covering 2015 to 2024—and we froze the plan as of 2017. So what should I expect going forward in terms of total pension liability? How should I look at that?

Bledsoe said that's more of an actuary's question—you'd probably want to discuss that with Chuck. Some of it comes down to life expectancy. You would expect at a certain point, maybe it will decrease some, but at least level off. Given the plan was frozen in 2017, we're starting to see more people retire who have never been able to participate, so that will turn over eventually. I believe you're now in the seventh year since the plan was frozen and everyone moved to the DC plan, so it's probably still a little early to fully see that benefit. One other factor that could affect the total pension liability is a COLA (Cost of Living Adjustment). It's been quite a while since any COLA has been approved, but if one were added, that would definitely impact the calculation. But since no new participants are coming into the plan, the only thing that might affect it going forward would be a COLA—if that were to happen.

Motion by Petersen, **Second** by Ellwanger, to accept the annual audit report of the City of Lawton Employee Retirement System for the fiscal year ending June 30, 2024. **AYE:** Ellwanger, James, Petersen, Bayones. **NAY:** None. **MOTION PASSED.**

Adjournment

Motion by James, **Second** by Ellwanger, to adjourn the April 8, 2025, meeting. **AYE:** Ellwanger, James, Petersen, Bayones. **NAY:** None. **MOTION PASSED.**

There being no further business, the meeting adjourned at 9:35 AM.