

**JOHNSTON & AHLSCHEDE, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**EMPLOYEES' RETIREMENT SYSTEM  
OF OKLAHOMA COUNTY**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**EMPLOYEES' RETIREMENT SYSTEM  
OF OKLAHOMA COUNTY  
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Independent Auditors' Report

Board of Trustees  
Employees' Retirement System of Oklahoma County  
Oklahoma City, Oklahoma

**Report of Financial Statements**

We have audited the accompanying financial statements of Employees' Retirement System of Oklahoma County, which comprise the statements of plan net position as of June 30, 2014 and 2013, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

**Managements'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 of America; 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 of America. 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 auditor's 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 auditor considers 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 circumstance, 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of Employees' Retirement System of Oklahoma County as of June 30, 2014 and 2013, and the changes in its plan net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

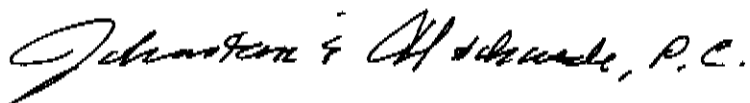
### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedules of changes in net position liability and related ratios, contributions, and actuarial assumptions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 of America, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing 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. Our opinion on the financial statements is not affected by this missing information.

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of investments at June 30, 2014, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Oklahoma City, Oklahoma  
October 20, 2014

**EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY**

**STATEMENTS OF PLAN NET POSITION**

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,931,907	\$ 5,730,299
Interest receivable	1,884	13,496
Investments at fair value - Note 3		
Certificate of deposit	475,000	475,000
Judgements	<u>545,667</u>	<u>2,545,215</u>
 Total investments	 <u>1,020,667</u>	 <u>3,020,215</u>
 Total assets	 <u>7,954,458</u>	 <u>8,764,010</u>
<b>Liabilities</b>		
Accounts payable	<u>-</u>	<u>-</u>
 <b>Net position restricted for pensions</b>	 <u>\$ 7,954,458</u>	 <u>\$ 8,764,010</u>

The accompanying notes are an integral part of the financial statements.

**EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY**

**STATEMENTS OF CHANGES IN PLAN NET POSITION**

	<u>Years Ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>Additions</b>		
Contributions - employer	<u>\$ 1,128,634</u>	<u>\$ 1,126,635</u>
Investment income		
Net appreciation in fair value of investments	-	-
Interest	<u>130,515</u>	<u>234,218</u>
Total investment income (loss)	<u>130,515</u>	<u>234,218</u>
Total additions	<u>1,259,149</u>	<u>1,360,853</u>
<b>Deductions</b>		
Benefits	2,055,526	2,232,269
Administrative expense	<u>13,175</u>	<u>10,842</u>
Total deductions	<u>2,068,701</u>	<u>2,243,111</u>
<b>Net increase (decrease) in net position</b>	(809,552)	(882,258)
<b>Net position restricted for pensions</b>		
Beginning of year	<u>8,764,010</u>	<u>9,646,268</u>
End of year	<u>\$ 7,954,458</u>	<u>\$ 8,764,010</u>

The accompanying notes are an integral part of the financial statements.

# EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY

## NOTES TO FINANCIAL STATEMENTS

The Employees' Retirement System of Oklahoma County administers a defined benefit plan and a defined contribution plan for employees of Oklahoma County. In 1991 all employees were given an option to convert from the defined benefit plan to the defined contribution plan. All employees hired after the conversion date of the defined contribution plan are covered under the defined contribution plan.

### **Note 1 - Summary of Significant Accounting Policies**

#### *Basis of Accounting*

The financial statements of the Plan are prepared under the accrual method of accounting. Employer contributions to the plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan trustees to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

#### *Investment Valuation and Income Recognition*

The Plan's investments are stated at fair value. If available, quoted market prices are used to value investments. The amounts shown in Note 3 for securities that have no quoted market price represent estimated fair value.

Purchases and sales of securities are recorded on a settlement date basis. Interest income is recorded on the accrual basis.

### **Note 2 - Plan Description and Contribution Information**

#### *Authority*

The Board of County Commissioners of Oklahoma County was authorized to establish, control and manage the Plan under Oklahoma statutes, and as such established the Board of Trustees for the Employees Retirement System of Oklahoma County to administer the Plan. The Board of Trustees approves any cost-of-living adjustments to the Plan as well as changes in contribution requirements.

**EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**Note 2 - Plan Description and Contribution Information (continued)**

*Plan Description*

The Plan is a single-employer defined benefit pension plan that covers employees of Oklahoma County, including all departments and agencies, that were employed by the County prior to the conversion date of the defined contribution plan in 1991, and who elected not to convert to the defined contribution plan. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

*Membership*

Membership of the plan consisted of the following:

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
Inactive plan members or beneficiaries currently receiving benefits	144	147
Inactive plan members entitled to but not yet receiving benefits	16	19
Active plan member	4	4
 Total	 <u>164</u>	 <u>170</u>
 Number of participating employers	 1	 1

*Contributions*

As specified by the Plan, County officers contribute 6% of the annual compensation of their employees and the County contributes 6% of participating employee's salary to the Plan. If an employee terminates employment with fewer than 8 years of service, he is entitled to receive only his actual contributions. During the years ended June 30, 2014 and 2013, contributions were diverted from the defined contribution plan to the defined benefit plan.

*Administrative Costs*

Administrative costs paid from the retirement fund include compensation of actuarial consultants, audit fees and bank fees.



**EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3 - Cash and Investments**

The Plan's investment policies are governed by Oklahoma State Statues.

**Custodial Credit Risk** - At June 30, 2014, the Plan held deposits of approximately \$7,406,907 in financial institutions, which was comprised of repurchase agreement \$2,442,907, public funds investor account \$4,489,000 and certificate of deposits \$475,000. Funds are completely insured or collateralized by Federal Depository Insurance (FDIC) and pledged collateral by the depository bank. The Plan held investments in the judgements of Oklahoma County in the amount of \$545,667. Judgements are paid by Oklahoma County through collection of taxes.

**Investment Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Plan does not have a formal investment policy that limits investment maturities as a means of managing is exposure to fair value losses arising from increasing interest rates.

As of June 30, 2014 the money-weighted rate of return was 1.58% assuming mid-year timing for inflows and outflows.

**Concentration of Investment Credit Risk** - The Plan places no limit on the amount it may invest in any one issuer. The types of investments are governed by Oklahoma State Statues.

The following table represents the fair value of investments. Investments, other than U.S. Government Securities, that represent 5% or more of the Plan's net assets are separately identified.

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
Investments at fair value as determined by quoted market price		
Certificates of Deposit	\$ 475,000	\$ 475,000
Investments at estimated fair value Judgements	<u>545,667</u>	<u>2,545,215</u>
Total investments	<u>\$ 1,020,667</u>	<u>\$ 3,020,215</u>

# EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY

## NOTES TO FINANCIAL STATEMENTS

### **Note 4 - Fair Value Measurements**

The Plan's investments are reported at fair value in the accompanying statement of plan net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Fair value measurement accounting literature establishes a fair value hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Plan, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

#### *Level 1 Fair Value Measurements*

The fair value of the certificates of deposits are on quoted net asset values of the shares held by the Plan at year-end. The fair value and quoted prices in active markets for identical assets were \$475,000 at June 30, 2014 and 2013.

#### *Level 3 Fair Value Measurements*

The judgements purchased from other governmental agencies are not actively traded and significant other observable inputs are not available. Judgements are stated at cost of \$545,667 and \$2,545,215 at June 30, 2014 and 2013 respectively.

### **Note 5- Subsequent Events**

Management has evaluated all subsequent events through October 20, 2014, the date the financial statements were available to be issued.

EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY  
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
 YEAR ENDED JUNE 30, 2014  
 UNAUDITED

Total pension liability	\$	
Service cost		33,673
Interest		1,042,059
Differences between expected and actual experience		263,658
Benefit payments, including refunds of member contributions		(2,059,412)
		<u>(720,022)</u>
Net change in total pension liability		
Total pension liability - beginning		<u>19,118,801</u>
Total pension liability - ending		<u>18,398,779</u>
Plan net position		
Contributions - employer		1,132,520
Net investment income		130,656
Benefit payments, including refunds of member contributions		(2,059,412)
Administrative expenses		(13,175)
		(809,411)
Plan net position - beginning		8,763,869
Plan net position - ending		<u>7,954,458</u>
Net pension liability	\$	<u>10,444,321</u>
Plan fiduciary net position as a percentage of the total pension liability		43.23%
Covered-employee payroll	\$	<u>238,621</u>
Net pension liability as percentage of covered-employee payroll		4376.95%

EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY  
 PENSION LIABILITY AND ACTUARIAL ASSUMPTIONS FOR TOTAL PENSION LIABILITY  
 YEAR ENDED JUNE 30, 2014  
 UNAUDITED

<b>Net Pension Liability</b>	
Total Pension Liability	\$ 18,398,779
Plan net position	(7,954,458)
	<u>\$ 10,444,321</u>

Plan net position as a % of the total pension liability 43.23%

**Plan Membership**

Inactive plan members or beneficiaries currently receiving benefits	144
Inactive plan members entitled to but not yet receiving benefits	16
Active plan members	4
	<u>164</u>

**Rate of Return**

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
Cash	100.00%	2.75%

Long-term expected rate of return in 5.75%

EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY  
 PENSION LIABILITY AND ACTUARIAL ASSUMPTIONS FOR TOTAL PENSION LIABILITY  
 YEAR ENDED JUNE 30, 2014  
 UNAUDITED

**Discount Rate and Net Pension Liability Sensitivity**

**Discount Rate**

The discount rate used to measure the total pension liability was 5.75%. The projections of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan'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.

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the pension liability, calculated using the discount rate of 5.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.75% or 1-percentage-point higher (6.75) that the current rate:

	1% Decrease - 4.75%	Current - 5.75%	1% Increase - 6.75%
Net pension liability	\$11,974,671	\$10,444,321	\$9,123,256

**Significant Actuarial Assumptions for Total Pension Liability**

Discount Rate	5.75%, net of pension plan investment expense, including inflation
Pay Increases	5% per year
Inflation	2.75% per year
Measurement Date	June 30, 2014, based on a valuation date of June 30, 2014
Ad hoc Cost of Living Increase	Not applicable
Mortality	RP 2000 Combined Mortality Table, projected 20 years using Projection Scale AA, with separate tables for men and women
Experience study	None known
Retirement	The earlier of age 62 or age 55 with at least 30 years of service.

**EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY**  
**SCHEDULE OF CONTRIBUTIONS**  
**UNAUDITED**

Year Ended June 30,	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 777,390	\$ 692,283	\$ 793,248	\$ 740,206	\$ 701,105
Contributions in relation to the actuarially determined contribution	(1,132,520)	(1,126,635)	(830,192)	(831,679)	(709,032)
Contributions deficiency (excess)	<u>\$ (355,130)</u>	<u>\$ (434,352)</u>	<u>\$ (36,944)</u>	<u>\$ (91,473)</u>	<u>\$ (7,927)</u>
Covered-employee payroll	\$ 238,621	\$ 214,192	\$ 202,984	\$ 254,120	\$ 235,296
Contributions as a percentage of covered-employee payroll	474.61%	525.99%	408.99%	327.28%	301.34%
Year Ended June 30,	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 771,560	\$ 665,111	\$ 833,669	\$ 697,165	\$ 750,879
Contributions in relation to the actuarially determined contribution	(863,045)	(740,281)	(1,543,091)	(903,750)	(1,180,212)
Contributions deficiency (excess)	<u>\$ (91,485)</u>	<u>\$ (75,170)</u>	<u>\$ (709,422)</u>	<u>\$ (206,585)</u>	<u>\$ (429,333)</u>
Covered-employee payroll	\$ 340,692	\$ 605,412	\$ 609,853	\$ 659,989	\$ 665,661
Contributions as a percentage of covered-employee payroll	253.32%	122.28%	253.03%	136.93%	177.30%

EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY  
 ACTUARIAL ASSUMPTIONS FOR ACTUARIALY DETERMINED CONTRIBUTIONS  
 YEAR ENDED JUNE 30, 2014

UNAUDITED

Cost Method	Individual Entry Age Cost Method
Amortization method	3 year level dollar (open)
Asset method	Market value of assets
Discount rate	5.75%, net of pension plan investment expense, including inflation
Inflation	2.75% per year
Pay increases	5.00% per year
Mortality	RP 2000 Combined Mortality Table, projected 20 years using Projection Scale AA, with separate tables for males and females.
Ad hoc cost-of living increase	Not applicable
Experience study	None known
Percent married	For active participants, it is based on their actual marital status on the valuation date. Assumed 50% of terminated vested participants are married.
Spouse age difference	Assumed males to be three years older than females if actual ages are unknown.
Expense load	3-year average of actual expenses paid by the plan, rounded to nearest \$1,000. For this valuation, expense load is \$10,000.

**EMPLOYEES' RETIREMENT SYSTEM OF OKLAHOMA COUNTY**

**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2014**

<u>Description</u>	<u>Rate of interest, maturity date</u>	<u>Par and Cost</u>	<u>Current Value</u>
<i>Certificates of Deposit</i>			
Midfirst Bank	Variable, 11/27/14	\$ 225,000	\$ 225,000
First Security Bank & Trust Co.	Variable, 10/19/14	250,000	250,000
<i>Judgements</i>			
Judgement	5.25%, 04/29/16	4,000	4,000
Judgement	5.25%, 04/03/16	6,667	6,667
Judgement	5.25%, 01/15/16	183,333	183,333
Judgement	5.25%, 08/22/15	58,333	58,333
Judgement	5.25%, 01/09/15	150,000	150,000
Judgement	5.25%, 04/06/15	10,000	10,000
Judgement	5.25%, 06/11/14	83,334	83,334
Judgement	5.25%, 11/21/14	<u>50,000</u>	<u>50,000</u>
Total Investments		<u>\$ 1,020,667</u>	<u>\$ 1,020,667</u>