

**City of Stamford, Connecticut
Classified Employees' Retirement Fund**

Financial Statements

June 30, 2011



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

Board of Trustees Classified Employees' Retirement Fund City of Stamford, Connecticut

We have audited the statement of plan net assets of the City of Stamford, Connecticut's Classified Employees' Retirement Fund (the "Fund") as of June 30, 2011 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Board of Trustees of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present the financial position of the City of Stamford, Connecticut, and changes in its financial position and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fund as of June 30, 2011, and the related changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedules of funding progress and employer contributions are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

O'Connor Davies Munns & Dobbins, LLP

Stamford, Connecticut
November 10, 2011

**City of Stamford, Connecticut
Classified Employees' Retirement Fund**

Statement of Plan Net Assets

June 30, 2011

ASSETS

Investments, at fair value	\$ 172,754,510
Employer contribution receivable	1,501,965
Accrued interest receivable	<u>30,323</u>

Total Assets	174,286,798
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LIABILITIES

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Net Assets Held in Trust for Pension Benefits	<u>\$ 174,286,798</u>
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City of Stamford, Connecticut
Classified Employees' Retirement Fund

Statement of Changes in Plan Net Assets

Year Ended June 30, 2011

ADDITIONS

Investment Income

Net appreciation in fair value of investments	\$ 25,962,169
Interest and dividends	<u>3,391,751</u>

29,353,920

Less investment expenses	<u>(349,133)</u>
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Total Investment Income	<u>29,004,787</u>
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Contributions

Employer	4,175,000
Employee	<u>1,269,301</u>

Total Contributions	<u>5,444,301</u>
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Total Additions	34,449,088
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DEDUCTIONS

Benefit payments	<u>12,527,739</u>
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Net Increase	21,921,349
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NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of year	<u>152,365,449</u>
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End of year	<u><u>\$ 174,286,798</u></u>
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See notes to financial statements

City of Stamford, Connecticut
Classified Employees' Retirement Fund

Notes to Financial Statements

1. Reporting Entity and Plan Description

Reporting Entity

The Classified Employees' Retirement Fund (the "Fund") of the City of Stamford, Connecticut (the "City") is reported as a Fiduciary Fund in the City's basic financial statements.

The financial statements present the Fund's financial position only and do not purport to, and do not, present the financial position of the City of Stamford, Connecticut and the changes in its financial position and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Covered Employees

Coverage is extended to all full-time employees of the City who are members of the Classified Service as defined in the Charter of the City, except the members of the police and fire departments, teachers, school administrators, school custodians and any other employees who are participants in other pension plans partially or fully supported by City taxes or contributions.

Summary of Benefit Provisions

The Fund is a contributory single employer defined benefit plan authorized under the City's collective bargaining agreement with its labor unions. The Fund is supported by the joint contributions of its members and the City.

Retirement benefits are payable to an employee who retires at age 60 with a minimum of 10 years of service or for members who retire at age 58 with a minimum of 15 years of service. Certain contracts allow employees with 25 years of service to retire. An employee becomes vested in the plan after five years of service. Early retirement benefits are available to members who have attained age 50 with a minimum of 25 years of service with benefits reduced by 0.25% for the first 36 months prior to normal retirement date. Anytime beyond the first 36 months, shall be reduced by 0.55% for each month of age less than 60. Upon retirement, annual benefits are paid equal to 2% per year of service with maximums up to 70% of final salary per year of credited service to a maximum of 33 years. For those with at least 25 years of service, the minimum annual benefit is \$1,000. Disability benefits are payable to members with 10 years of service (none if service-connected) at 50% of final average salary at date of disability with a minimum of \$1,000 annually, reduced by any worker's compensation benefits. If members are terminated from the City, they may elect a withdrawal benefit equal to a refund of employee contributions with interest. The Fund also provides lump-sum death benefits for beneficiaries, primarily equal to a refund of employee contributions plus interest, less benefits paid.

City of Stamford, Connecticut
Classified Employees' Retirement Fund

Notes to Financial Statements

1. Reporting Entity and Plan Description *(continued)*

Summary of Benefit Provisions (continued)

Death benefits can also be paid as an annuity equal to 100% of benefits accrued prior to death for pre-retirement and 100% of pension benefits guaranteed for five years for post-retirement. Some union contracts allow employees to exchange sick or vacation leave for up to 4% additional pension credit (1% per 25 days).

Employees should not rely solely upon this synopsis of pension benefit provisions. The City's Charter, together with the pension provisions of the collective bargaining agreement, are at all times the official source of plan provisions.

Contributions

The City is required to contribute the greater of an actuarially determined rate or minimum contribution required by the City Charter. By City Charter, contribution requirements of the Fund's members and the City are established and may be amended by the collective bargaining agreement between the unions and the City.

The City's contribution to the Fund is actuarially determined and is intended to set aside amounts to cover the costs related to both current and future services rendered by its members. In order to arrive at the City's annual contribution, these costs are spread over the aggregate working lifetime of active participants as a function of actual current and assumed future payroll.

Fund members contribute 3% of their annual salary until they have reached 33 years of credited service. Interest of 5% per year is credited to the employees' contributions.

Trust Fund Managed by Wells Fargo

Under the terms of a trust agreement between Wells Fargo (the "Custodian") and the Fund, the Custodian administers a trust on behalf of the Fund. Investment managers have been granted discretionary authority concerning purchases and sales of investments in the Trust.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Employer contributions 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 Fund.

City of Stamford, Connecticut
Classified Employees' Retirement Fund

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Basis of Accounting *(continued)*

The accounting policies of the Fund predominantly follow Governmental Accounting Standards Board ("GASB") guidance, which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of additions and deductions as reflected in the statement of changes in net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Investments are reported at fair value. Investment assets consist principally of short-term investments, United States Government and agency securities, common and preferred equities, corporate debt, mutual funds and alternative investments. Short-term investments are stated at cost, which approximates fair value. Fair value of other securities is determined by the means of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Investments in alternative investments for which market quotations are not readily available are valued at the fair values as determined by the fund managers. All such assets are carried at fair value; losses are incurred only up to the assets invested.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Fund's gains and losses on investments bought and sold as well as held during the year.

City of Stamford, Connecticut
Classified Employees' Retirement Fund

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Deposits and Short-Term Investments

The Fund has a policy that deposits and short-term debt investments can include commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the account's principal value, and is to be purchased by the fund manager. As such, these investments must have maturities of one year or less at time of purchase. Commercial paper investments must be rated A-1 or P-1 by Standard & Poor's and Moody's. The fund manager may not purchase short-term financial instruments considered to contain speculative characteristics (uncertainty of principal and/or interest). The fund manager also may not invest more than 5% of the account's market value in obligations of a single issuer, with the exception of the U.S. Government and its agencies. Uninvested cash reserves should be kept to minimum levels. Within the limitations mentioned above, the manager has complete discretion to allocate and select short-term cash and equivalent securities.

Accounting for Uncertainty in Income Taxes

The Fund recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Fund had no uncertain tax positions that would require financial statement recognition or disclosure. The Fund is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2008.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 10, 2011.

3. Annual Pension Cost and Net Pension Obligation

The City's annual pension cost ("APC") and net pension obligation (asset) to the Fund for the current year ended June 30, 2011 (rounded to the nearest thousand) are as follows:

Annual required contribution	\$ 4,175,000
Interest on net pension obligation	3,000
Adjustment to annual required contribution	<u>(4,000)</u>
APC	4,174,000
Contribution made	<u>(4,175,000)</u>
Decrease in net pension obligation	(1,000)
Net pension obligation, beginning of year	<u>34,000</u>
Net pension obligation, end of year	<u><u>\$ 33,000</u></u>

City of Stamford, Connecticut
Classified Employees' Retirement Fund

Notes to Financial Statements

3. Annual Pension Cost and Net Pension Obligation (continued)

Membership in the Fund consisted of the following at July 1, 2010, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	655
Terminated plan members entitled to, but not yet receiving benefits	73
Terminated plan members entitled to a refund of employee contributions but have elected to defer receipt	9
Active plan members	784
	1,521

The trend information for the years ended June 30 are as follows:

Fiscal Year	APC	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	\$ 4,174,000	100.0%	\$ 33,000
2010	2,324,000	101.7	34,000
2009	2,369,000	41.6	73,000

4. Investments

Investments at June 30, 2011 consist of the following:

Cash equivalents	\$ 3,103,121
Pooled and common/collective trust funds	38,383,039
Mutual funds	112,105,062
Common and preferred stocks	19,163,288
	\$ 172,754,510

**City of Stamford, Connecticut
Classified Employees' Retirement Fund**

Notes to Financial Statements

4. Investments (continued)

The Fund's investment policy targets an asset mix to provide the probability of meeting or exceeding the return objectives at the lowest possible risk and remain in accordance with state statutes. The target asset allocation is as follows:

	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Domestic Equities	18.0%	48.0%
International Equities	4.0%	24.0%
Fixed Income	19.0%	39.0%
Miscellaneous	14.0%	34.0%

The following investments represent 5% or more of the Fund's net assets available for benefits at June 30, 2011:

PIMCO All Asset Fund CI I	\$ 26,209,906
GMO Global Ast Alloc Fund III	26,175,255
EB Aggregate Bond Index Fund	15,938,945
Met West Total Return Bond CI I	15,934,514
Templeton Institutional Funds Inc Foreign	14,558,736
SSgA Russell 1000 Index SL	11,703,446
Hartford Institutional Trust	10,740,648

The Fund's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity.

**City of Stamford, Connecticut
Classified Employees' Retirement Fund**

Notes to Financial Statements

5. Actuarial Assumptions and Schedule of Funding Progress

The actuarial assumptions and methods used for the July 1, 2010 actuarial valuation were based on July 1, 2010 data, cost information and assumptions. A full valuation was performed as of July 1, 2010 and the next full valuation will be as of July 1, 2012 (performed every two years as permitted by GASB Statement No. 45 guidance). The actuarial assumptions and methods used as of July 1, 2010 are as follows:

Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount
Remaining amortization period	15 years (open)
Asset valuation method	Actuarial value of assets recognizing 20% of the difference between expected actuarial value and actual market value each year ("smoothed market"). The actuarial value is limited to a minimum of 70% or a maximum of 130% of market value.
Investment rate of return	8.00%
Projected salary increases	4.50%
Mortality table	1983 Group Annuity Mortality Table

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Schedule of Funding Progress		Covered Payroll	UAAL as a Percentage of Covered Payroll
			(Underfunded) Overfunded AAL ("UAAL")	Funded Ratio		
07/01/10	\$ 180,544,000	\$194,670,000	\$(14,126,000)	92.7%	\$ 46,312,000	-30.5%

There were several changes in the current year valuation which include: (1) the City changed its funding policy and will now contribute at the beginning of each fiscal year; (2) the method used to value sick and vacation exchange payouts has been modified in that the new method funds the exact benefits that are payable to each group; and (3) a postretirement life insurance benefit of \$6,000 for applicable retirees has been reflected in the current valuation.

City of Stamford, Connecticut
Classified Employees' Retirement Fund

Notes to Financial Statements

6. Risks and Uncertainties

The assets of the Fund are primarily financial instruments which are monetary in nature. Accordingly, interest rates have a more significant impact on the Fund's performance than do the effects of the general levels of inflation. Interest rates generally do not move in the same direction or with the same magnitude as prices of goods and services as measured by the consumer price index. Investments are subject to risk conditions of the individual investment's objectives, stock market performance, interest rates, economic conditions and world affairs. Due to the level of risk associated with the Fund's investments, it is reasonably possible that changes in the values of the Fund's investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Plan contributions are made to the Fund based on the actuarial valuation. The actuarial valuation is based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Interest Rate Risk

The Fund limits its exposure to realized losses arising from changes in interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity.

The interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Fund does not have such securities.

Credit Risk

The credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. The Fund does not have such securities.

Custodial Credit Risk

This is the risk that in the event of the failure of a counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

**City of Stamford, Connecticut
Classified Employees' Retirement Fund**

Supplementary Information

June 30, 2011

**City of Stamford, Connecticut
Classified Employees' Retirement Fund**

Schedule of Funding Progress

June 30, 2011

	<u>07/01/10</u>	<u>07/01/09</u>	<u>07/01/08</u>	<u>07/01/07</u>	<u>07/01/06</u>	<u>07/01/05</u>
Actuarial valuation of plan assets (a)	\$ 180,544,000	\$ 181,777,000	\$ 189,954,000	\$ 188,461,000	\$ 182,537,000	\$ 179,188,000
Actuarial accrued liability (AAL) (b)	194,670,000	182,632,000	176,317,000	166,084,000	159,821,000	150,897,000
Overfunded (underfunded) actuarial accrued liability (UAAL) (b-a)	(14,126,000)	(855,000)	13,637,000	22,377,000	22,716,000	28,291,000
Funded ratio (a/b)	92.7%	99.5%	107.7%	113.5%	114.2%	118.7%
Annual covered payroll (c)	46,312,000	45,981,000	44,001,000	43,959,000	41,420,000	39,627,000
UAAL as a percentage of covered payroll ((b-a)/c)	-30.5%	-1.9%	31.0%	50.9%	54.8%	71.4%

See independent auditors' report

City of Stamford, Connecticut
Classified Employees' Retirement Fund

Schedule of Employer Contributions

June 30, 2011

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution *</u>	<u>Percentage Contributed</u>	<u>Actual Contribution *</u>
2011	\$ 4,175,000	100.0%	\$ 4,175,000
2010	2,326,000	101.6%	2,363,000
2009	2,326,000	42.3%	985,000
2008	1,031,000	82.4%	850,000
2007	687,000	87.8%	603,000
2006	239,000	136.8%	327,000

* - Rounded to the nearest thousand