

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

Financial Statements

June 30, 2013

Independent Auditors' Report

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

We have audited the accompanying financial statements of the City of Stamford, Connecticut's Classified Employees' Retirement Fund (the "Fund") which comprise of the statement of net position as of June 30, 2013 and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 net position of the Fund as of June 30, 2013, and the related changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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 for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Funding Progress and Schedule of Employer Contributions are presented for purposes of additional analysis and are 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. The 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.

O'Connor Davies, LLP

January 9, 2014

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

**Statement of Changes in Net Position
Year Ended June 30, 2013**

ADDITIONS

Investment Income

Net appreciation in fair value of investments	\$ 17,004,099
Interest and dividends	<u>4,600,699</u>

21,604,798

Less investment expenses

(261,579)

Total Investment Income

21,343,219

Contributions

Employer	5,897,100
Employee	<u>1,629,143</u>

Total Contributions	<u>7,526,243</u>
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Total Additions	28,869,462
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DEDUCTIONS

Benefit payments	<u>13,542,242</u>
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Net Increase	15,327,220
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NET POSITION HELD IN TRUST FOR PENSION BENEFITS

Beginning of year	<u>169,035,839</u>
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End of year	<u>\$ 184,363,059</u>
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**City of Stamford, Connecticut
Classified Employees' Retirement Fund**

Notes to Financial Statements
June 30, 2013

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 (35 years for UAW and 30 years for UE participants hired on or after July 1, 2012). 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
June 30, 2013

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 4.00% additional pension credit (1.00% 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 3.00% of their annual salary until they have reached 33 years of credited service. Interest of 5.00% 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
June 30, 2013

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 position 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.

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.

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

Notes to Financial Statements
June 30, 2013

2. Summary of Significant Accounting Policies (continued)

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 January 9, 2014.

3. Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation (asset) to the Fund for the current year ended June 30, 2013 are as follows:

Annual required contribution	\$ 5,902,000
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	<u>5,902,000</u>
Contribution made	<u>(5,897,100)</u>
Decrease in net pension obligation	4,900
Net pension obligation, beginning of year	<u>4,000</u>
Net pension obligation, end of year	<u><u>\$ 8,900</u></u>

Membership in the Fund consisted of the following at July 1, 2012, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	667
Terminated plan members entitled to, but not yet receiving benefits	80
Terminated plan members entitled to a refund of employee contributions but have elected to defer receipt	27
Active plan members	<u>734</u>
	<u><u>1,508</u></u>

The trend information for the years ended June 30 (rounded to the nearest thousand) are as follows:

Fiscal Year	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2013	\$ 5,902,000	99.9%	\$ 8,900
2012	5,361,000	100.5	4,000
2011	4,174,000	100.0	33,000

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

Notes to Financial Statements
June 30, 2013

4. Investments

Investments at June 30, 2013 consist of the following:

Cash equivalents	\$ 2,544,212
Pooled and common/collective trust funds	22,600,805
Mutual funds	137,968,298
Common stocks	<u>21,008,518</u>
	<u>\$ 184,121,833</u>

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%
Asset Allocation	14.0%	34.0%

In August 2013, the investment policy for the Fund was updated and, as a result, the target asset allocation percentages will change for the year ended June 30, 2014.

The following investments represent 5% or more of the Fund's net position at June 30, 2013:

GMO Global Asset Allocation Fund III	\$ 34,318,723
PIMCO All Asset Fund CI I	32,276,436
Metropolitan West Total Return Bond CI I	22,430,182
Artisan International Fund	15,793,841
Templeton Institutional Funds Inc Foreign	15,700,917
SSGA Russell 1000 Index SL	13,313,125
Hartford Institutional Trust	9,287,679

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

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

Notes to Financial Statements
June 30, 2013

5. Actuarial Assumptions and Schedule of Funding Progress

The actuarial assumptions and methods used for the July 1, 2012 actuarial valuation were based on July 1, 2012 data, cost information and assumptions. A full valuation was performed as of July 1, 2012 and the next full valuation will be as of July 1, 2014 (performed every two years as permitted by GASB Statement No. 45 guidance). The actuarial assumptions and methods used as of July 1, 2012 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	7.75%
Projected salary increases	Graded scale beginning at 6.5% (age 20) and grading down to 3% (age 55+)
Mortality table	50/50 Blend of RP-2000 Combined Table and RP-2000 Blue Collar Combined Table

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Underfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/12	\$188,447,000	\$219,465,000	\$(31,018,000)	85.9%	\$ 43,686,000	(71.0%)

There were several changes in the previous 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
June 30, 2013

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 position.

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

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

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name. The Fund's investments are not exposed to custodial credit risk as they are held by the Custodian in the name of the Fund/government.

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

Supplementary Information

June 30, 2013

City of Stamford, Connecticut
Classified Employees' Retirement Fund

Schedule of Funding Progress
June 30, 2013

	07/01/12	07/01/11	07/01/10	07/01/09	07/01/08	07/01/07
Actuarial valuation of plan assets (a)	\$ 188,447,000	\$ 185,099,000	\$ 180,544,000	\$ 181,777,000	\$ 189,954,000	\$ 188,461,000
Actuarial accrued liability (AAL) (b)	219,465,000	202,613,000	194,670,000	182,632,000	176,317,000	166,084,000
(Underfunded) overfunded actuarial accrued liability (UAAL) (b-a)	(31,018,000)	(17,514,000)	(14,126,000)	(855,000)	13,637,000	22,377,000
Funded ratio (a/b)	85.9%	91.4%	92.7%	99.5%	107.7%	113.5%
Annual covered payroll (c)	43,686,000	48,396,000	46,312,000	45,981,000	44,001,000	43,959,000
UAAL as a percentage of covered payroll ((b-a)/c)	(71.0%)	(36.2%)	(30.5%)	(1.9%)	31.0%	50.9%

See independent auditors' report

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

Schedule of Employer Contributions
June 30, 2013

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution *</u>	<u>Percentage Contributed</u>	<u>Actual Contribution *</u>
2013	\$ 5,902,000	100.0%	\$ 5,897,100
2012	5,362,000	101.0%	5,390,000
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	82.0%	850,000

* - Rounded to the nearest thousand