

McGladrey & Pullen

Certified Public Accountants

**CITY OF STAMFORD, CONNECTICUT
CLASSIFIED EMPLOYEES' RETIREMENT FUND**

**FINANCIAL REPORT
JUNE 30, 2006**

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INDEPENDENT AUDITOR'S 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, 2006 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 and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 City of Stamford, Connecticut's Classified Employees' Retirement Fund and do not purport to, and do not, present fairly the financial position of the City of Stamford, Connecticut, and the changes in its financial position and cash flows, where applicable, 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, 2006 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.

Management has chosen not to present a Management Discussion and Analysis for the Classified Employees' Retirement Fund that accounting principles generally accepted in the United States of America require to supplement, although not to be a part of the basic financial statements.

In accordance with "Government Auditing Standards," we have also issued under separate cover our report dated September 28, 2006 on our consideration of the City of Stamford, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards," and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

New Haven, Connecticut
September 28, 2006

**CITY OF STAMFORD, CONNECTICUT
CLASSIFIED EMPLOYEES' RETIREMENT FUND**

**STATEMENT OF PLAN NET ASSETS
June 30, 2006**

ASSETS

Cash and short-term investments	\$ 217,620
Accrued interest	44,987
Investments, at fair value	<u>179,538,125</u>
Total assets	<u>179,800,732</u>

LIABILITIES

Pending transactions	<u>144,112</u>
Total liabilities	<u>144,112</u>

Net assets held in trust for pension benefits (A schedule of funding progress for the Plan is presented in Note 4).

\$ 179,656,620

See Notes to Financial Statements.

**CITY OF STAMFORD, CONNECTICUT
CLASSIFIED EMPLOYEES' RETIREMENT FUND**

**STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2006**

ADDITIONS

Contributions	
Employer	\$ 327,000
Employee	1,192,279
	<hr/>
	1,519,279
	<hr/>
Investment Income	
Net appreciation in fair value of investments	11,064,048
Interest and dividends	3,692,259
	<hr/>
	14,756,307
Less investment expenses:	
Investment management fees	470,724
	<hr/>
Net investment income	14,285,583
	<hr/>
Total additions	15,804,862
	<hr/>

DEDUCTIONS

Benefit payments	11,215,276
Other Deductions	134,174
	<hr/>
Total Deductions	11,349,450
	<hr/>
Net increase	4,455,412

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of year	<hr/>
	175,201,208
End of year	<hr/>
	<u>\$ 179,656,620</u>

See Notes to Financial Statements.

**CITY OF STAMFORD, CONNECTICUT
CLASSIFIED EMPLOYEES' RETIREMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

Note 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 only the City of Stamford, Connecticut's Classified Employees' Retirement Fund and do not purport to, and do not, present fairly the financial position of the City of Stamford, Connecticut, and the changes in its financial position and cash flows, where applicable, 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 trusted, contributory defined benefit plan authorized under the City's collective bargaining agreement with its labor union. The Fund is supported by the joint contributions of its members and the City.

Full retirement benefits are payable to members who retire 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. An employee becomes vested in the plan after ten 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% of final average salary per year of credited service to a maximum of 33 years. Final average salary is defined as the average of salary earned during the highest two years out of the last five years of employment prior to termination. This salary is base salary only, it does not include overtime compensation or other fringe benefits. 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

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CLASSIFIED EMPLOYEES' RETIREMENT FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006**

provides lump-sum death benefits for beneficiaries primarily equal to a refund of employee contributions plus interest, less benefits paid. 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.

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 agreements, 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 plan members and the City are established and may be amended by the collective bargaining agreement between 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 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 can contribute between 0% and 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 Wachovia Bank

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

Note 2. Summary of Significant Accounting Policies

Basis of accounting

The financial statements are prepared using the accrual basis of accounting. Fund member contributions are recognized in the period in which the contributions are due. Employer contributions to the Fund 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, Continued
June 30, 2006**

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. The most significant estimates relate to the determination of accumulated plan benefits. Actual results could differ from those estimates.

Valuation of investments and income recognition

Investment assets consist of short-term investments, United States Government and agency securities, common and preferred equities, corporate debt and mutual funds. Investments are recorded at fair value bases on quoted market prices.

Purchases and sales of securities and resulting gain/loss are recorded on a trade date basis. Interest and dividend income are recorded when earned. Changes in the fair value of plan investments are recognized at the time of the change.

Risk and uncertainties

The Fund provides for various investment options. Investments are exposed to various risks, such as interest rate, market and credit rates. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Changes in Plan Net Assets.

**CITY OF STAMFORD, CONNECTICUT
CLASSIFIED EMPLOYEES' RETIREMENT FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006**

Annual pension cost and net pension obligation (asset)

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

Annual required contribution	\$ 239,000
Interest on net pension obligation	(132,000)
Adjustments to annual required contribution	<u>186,000</u>
Annual pension cost	293,000
Contributions made	<u>(327,000)</u>
Decrease in net pension asset	(34,000)
Net pension asset, beginning of year	<u>(1,648,000)</u>
Net pension asset, end of year	<u><u>\$ (1,682,000)</u></u>

Membership in the Fund consisted of the following at July 1, 2005, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	688
Terminated plan members entitled to, but not yet receiving benefits	67
Active plan members	
Vested	609
Non-Vested	<u>172</u>
Total	<u><u>1,536</u></u>

Trend Information:

Fiscal Year	Trend Information		
	Annual Pension Cost (APC) (\$000)	Percentage of APC Contributed	Net Pension Asset (\$000)
2006	\$ 293	111.6%	\$ (1,682)
2005	\$ 281	N/A	\$ (1,648)
2004	\$ (143)	N/A	\$ (1,929)

**CITY OF STAMFORD, CONNECTICUT
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**NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006**

Note 3. Cash and Investments

Deposits: The Fund has a policy that deposits 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 are to be purchased by the Fund Manager. As such, assets must represent maturities of one year or less at time of purchase. Commercial paper assets must be rated A-1 or P-1 by Standard and Poor's and Moody's, respectively. The Fund Manager may not purchase short-term financial instruments considered to contain speculative characteristics (uncertainty of principal and/or interest). The manager also may not invest more than 5% of the account's market value in the 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.

The following is a summary of cash and cash equivalents at June 30, 2006:

	<u>Carrying and Fair Values</u>
Deposits	<u>\$ 217,620</u>

Investments: The 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 asset allocation is as follows:

Fiscal Year	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Large Cap Equities	30%	40%
Small Cap Equities	7.5%	12.5%
Fixed Income	35%	45%
International Equities	12.5%	17.5%

Interest Rate Risk: The Fund limits its exposure to fair value 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, and investing funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

**CITY OF STAMFORD, CONNECTICUT
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**NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006**

Concentrations:

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.

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2006 \$117,620 of the Fund's bank balance of \$217,620 was uninsured and uncollateralized.

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Fund's investments were exposed as follows at June 30, 2006:

<u>Type of Investment</u>	<u>Fair Value</u>
Common Stock	\$ 35,719,163 *
Mutual Funds	<u>143,818,962</u>
TOTAL	<u><u>\$ 179,538,125</u></u>

* These investments are uninsured and unregistered, with securities held the counterparty, but not in the Fund's name.

Interest rate risk:

This 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:

Generally, 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.

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CLASSIFIED EMPLOYEES' RETIREMENT FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006**

Note 4. Required Trend Information

Schedule of Funding Progress (000's)

Actuarial Valuation Date	07/01/2005	07/01/2004	07/01/2003	07/01/2002	07/01/2001	07/01/2000
Actuarial Valuation of Plan Assets (a)	\$ 179,188	\$ 176,081	\$ 174,622	\$ 176,574	\$ 175,978	\$ 169,786
Actuarial Accrued Liability (AAL) (b)	\$ 150,897	\$ 145,610	\$ 121,900	\$ 121,186	\$ 121,975	\$ 116,598
Unfunded (assets in excess of) AAL (c)	\$ (28,291)	\$ (30,471)	\$ (52,722)	\$ (55,388)	\$ (54,003)	\$ (53,188)
Actuarial value of assets as a percentage of the AAL (a/b)	118.7%	120.9%	143.3%	145.7%	144.3%	145.6%
Annual Covered Payroll (d)	\$ 39,627	\$ 37,064	\$ 37,841	\$ 36,132	\$ 37,636	\$ 35,625
Percentage of unfunded (assets in excess of) AAL to annual covered payroll (c/d)	(71.4)%	(82.0)%	(139.3)%	(153.3)%	(143.5)%	(149.3)%

Schedule of Employer Contributions

Fiscal Year	Annual Required Contribution (\$000)	Percentage Contributed
2006	\$239	136.8%
2005	217	0.0%
2004	-	N/A
2003	-	N/A
2002	-	N/A
2001	-	N/A
2000	-	N/A

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**NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006**

Actuarial Assumptions

Valuation date	July 1, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount (OPEN)
Remaining amortization period	15 years
Asset valuation method	Actuarial value - smoothed market
Actuarial assumptions:	
Investment rate of return	8% per year
Projected salary increases	4.5% per year