

McGladrey & Pullen

Certified Public Accountants

**CITY OF STAMFORD, CONNECTICUT
CUSTODIANS' AND MECHANICS'
RETIREMENT TRUST FUND**

**FINANCIAL REPORT
JUNE 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Custodians' and Mechanics' Retirement Trust Fund
City of Stamford, Connecticut

We have audited the statement of plan net assets of the City of Stamford, Connecticut's Custodians' and Mechanics' Retirement Trust 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 Custodians' and Mechanics' Retirement Trust 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 Custodians' and Mechanics' Retirement Trust 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 our report dated September 28, 2006 on our consideration of the City of Stamford, Connecticut's 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
CUSTODIANS' AND MECHANICS' RETIREMENT TRUST FUND**

STATEMENT OF PLAN NET ASSETS

June 30, 2006

ASSETS

Accrued interest	\$ 169,526
Investments, at fair value	<u>38,007,162</u>
Total assets	<u><u>38,176,688</u></u>

Net assets held in trust for pension benefits (A schedule of funding progress for the Plan is presented in Note 4). \$ 38,176,688

See Notes to Financial Statements.

**CITY OF STAMFORD, CONNECTICUT
CUSTODIANS' AND MECHANICS' RETIREMENT TRUST FUND**

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

ADDITIONS

Contributions	
Employer	\$ 312,000
Employee	805,989
	<u>1,117,989</u>
Investment Income	
Net appreciation in fair value of investments	1,819,571
Interest and dividends	1,581,220
	<u>3,400,791</u>
Less investment expenses:	
Investment management fees	85,754
Net investment income	<u>3,315,037</u>
Total additions	4,433,026

DEDUCTIONS

Benefit payments	<u>2,793,923</u>
Total deductions	<u>2,793,923</u>
Net increase	1,639,103

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of year	<u>36,537,585</u>
End of year	<u>\$ 38,176,688</u>

See Notes to Financial Statements.

**CITY OF STAMFORD, CONNECTICUT
CUSTODIANS' AND MECHANICS' RETIREMENT TRUST FUND**

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

Note 1. Reporting Entity and Plan Description

Reporting entity

The Custodians' and Mechanics' Retirement Trust 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 presently only the City of Stamford, Connecticut's Custodians' and Mechanics' Retirement Trust 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 custodians and employees of the maintenance department of the public schools of the City.

Summary of benefit provisions

The Fund is a trusted, contributory defined benefit plan authorized under the collective bargaining agreement between the City and Local 1083 of Council 4, American Federation of State, County and Municipal Employees, AFL-CIO. The Fund is supported by the joint contributions of its members and the City.

Retirement benefits are payable to members at age 60 or upon completion of 25 years of service. An employee becomes vested in the plan after ten years of service. Upon retirement, annual benefits are equal to 2.25% of final average salary for each year of service up to a maximum of 74.25% of final average salary. For those with at least 25 years of service, the minimum annual benefit is \$1,000. Disability benefits are payable at 50% of salary at date of disability but not less than the accrued retirement benefit. 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. Death benefits can also be paid as an annuity equal to 50% of salary at death for preretirement and 100% of pension benefits for postretirement. In addition, for retired employees having between 10-15 years of service, their beneficiaries are eligible to receive a pension.

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.

**CITY OF STAMFORD, CONNECTICUT
CUSTODIANS' AND MECHANICS' RETIREMENT TRUST FUND**

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

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 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 are required to contribute 7% of their annual salary.

Trust fund managed by Bank of America

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

Note 2. Summary of Significant Accounting Policies

Basis of accounting

The financial statements were 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.

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.

**CITY OF STAMFORD, CONNECTICUT
CUSTODIANS' AND MECHANICS' RETIREMENT TRUST FUND**

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

Valuation of investments

Investment assets consist principally of short-term investments, United States Government and agency securities, corporate debt, common and preferred equities, mutual funds and collective trust funds. Investments are stated at quoted market prices.

Securities transactions are recorded on the trade date.

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.

Annual pension cost and net pension obligation (asset)

The City's annual pension cost and net pension obligation to the Fund for the current year were as follows:

Annual required contribution	\$ 363,000
Interest on net pension obligation	(52,000)
Adjustment to annual required contribution	74,000
Annual pension cost	<u>385,000</u>
Contributions made	<u>(312,000)</u>
Decrease in net pension asset	73,000
Net pension asset, beginning of year	(614,000)
Adjustment to prior year contributions	(38,000)
Net pension asset, end of year	<u><u>\$ (579,000)</u></u>

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

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

Retirees and beneficiaries receiving benefits	137
Active plan members	
Vested	182
Non-Vested	259
Total	<u>578</u>

Trend Information:

Fiscal Year	Trend Information		
	Annual Pension Cost (APC) (\$000)	Percentage of APC Contributed	Net Pension Asset (\$000)
2006	\$ 385	81.0%	\$ (579)
2005	\$ 94	146.8%	\$ (614)
2004	\$ 13	N/A	\$ (620)

Note 3. Cash and Investments

The Fund's policy for investments is as follows:

The 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	Minimum Allocation	Maximum Allocation
Large Cap Equities	30%	50%
Small Cap Equities	10%	15%
Fixed Income	35%	45%
International Equities	5%	15%

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

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

market prior to maturity, and investing funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

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.

The following represents the investments in this Plan that represent more than 5% of the respective Plan's net assets as of June 30, 2006:

Custodian & Mechanics' Retirement Fund	
GMO Global Balanced Asset Allocation	\$ 4,941,192
Templeton Foreign Equity Series	\$ 3,729,163
SSGA Russell 1000 Index SL	\$ 14,980,691
Premium Value Daily FD Unit	\$ 2,417,438
Fleet Aggregate Bond Fund EB	\$ 11,931,705

Custodial credit risk

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 are not exposed as follows at June 30, 2006:

<u>Type of Investment</u>	<u>Fair Value</u>
Mutual Funds	\$ 26,075,523
Fixed Income Funds	<u>11,931,639</u>
TOTAL	<u>\$ 38,007,162</u>

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, and therefore not subject to such risk.

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

Note 4. Required Trend Information

Schedule of Funding Progress (000's)

Actuarial Valuation Date	<u>07/01/2005</u>	<u>07/01/2004</u>	<u>07/01/2003</u>	<u>07/01/2002</u>	<u>07/01/2001</u>	<u>07/01/2000</u>
Actuarial Valuation of Plan Assets (a)	\$ 37,785	\$ 37,071	\$ 36,131	\$ 35,810	\$ 36,818	\$ 35,821
Actuarial Accrued Liability (AAL) (b)	\$ 32,553	\$ 31,203	\$ 29,188	\$ 27,803	\$ 31,003	\$ 30,235
Unfunded (assets in excess of) AAL (c)	\$ (5,232)	\$ (5,868)	\$ (6,943)	\$ (8,007)	\$ (5,815)	\$ (5,586)
Actuarial value of assets as a percentage of the AAL (a/b)	116.1%	118.8%	123.8%	128.8%	118.8%	118.5%
Annual Covered Payroll (d)	\$ 13,477	\$ 12,433	\$ 11,963	\$ 11,702	\$ 5,456	\$ 5,073
Percentage of unfunded (assets in excess of) AAL to annual covered payroll (c/d)	(38.8)%	(47.2)%	(58.0)%	(68.4)%	(106.6)%	(110.1)%

Schedule of Employer Contributions

<u>Fiscal Year</u>	<u>Annual Required Contribution (\$000)</u>	<u>Percentage Contributed</u>
2006	363	86.0%
2005	217	63.6%
2004	-	N/A
2003	-	N/A
2002	-	N/A
2001	-	N/A

**CITY OF STAMFORD, CONNECTICUT
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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