

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Financial Statements

June 30, 2012

Independent Auditors' Report**Board of Trustees
Firefighters' Pension Trust Fund
City of Stamford, Connecticut**

We have audited the statement of plan net assets of the City of Stamford, Connecticut Firefighters' Pension Trust Fund (the "Fund") as of June 30, 2012 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, 2012, 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, LLP

Stamford, Connecticut
February 20, 2013

O'CONNOR DAVIES, LLP

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**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

**Statement of Plan Net Assets
June 30, 2012**

ASSETS

Cash and short-term investments	\$ 4,777,956
Investments, at fair value	112,458,586
Accrued interest receivable	<u>321,988</u>
Total Assets	117,558,530

LIABILITIES

	<u>-</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 117,558,530</u>

See notes to financial statements

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

**Statement of Changes in Plan Net Assets
Year Ended June 30, 2012**

ADDITIONS

Investment (Loss) Income	
Net depreciation in fair value of investments	\$ (9,467,400)
Interest and dividends	<u>2,791,054</u>
	(6,676,346)
Less investment expenses	<u>(985,421)</u>
Total Investment Loss	<u>(7,661,767)</u>
Contributions	
Employer	2,080,000
Employee	<u>1,215,607</u>
Total Contributions	<u>3,295,607</u>
Total Additions, Net of Investment Loss	(4,366,160)

DEDUCTIONS

Benefit payments	<u>7,808,918</u>
Net Decrease	(12,175,078)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of year	<u>129,733,608</u>
End of year	<u>\$ 117,558,530</u>

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

1. Reporting Entity and Plan Description

Reporting Entity

The Firefighters' Pension 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 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 firefighters employed by the City.

Summary of Benefit Provisions

The Fund is a contributory single employer defined benefit plan authorized under the collective bargaining agreement between the City and Local 786 of the International Association of Firefighters (the "Union"). The Fund is supported by the joint contributions of its members and the City.

Retirement benefits are payable to members with 20 years of service and for firefighters hired in 1981 or later, after attainment of age 48. Members who reach age 65 with less than 20 years of service are also eligible for benefits. Upon retirement, annual benefits are paid equal to 50% of final salary, as defined, plus 2% for each year of service over 20 years, up to a maximum pension of 74% of final salary. The Plan allows employees to exchange vacation leave for up to 7.5% additional pension credit at the rate of 1.5% per 20 days.

Disability benefits are payable at 50% to 100% of salary during the member's last year of service 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 without interest. The Plan also provides lump sum death benefits for beneficiaries primarily equal to a refund of employee contributions without interest, less benefits paid. Death benefits can also be paid to beneficiaries as an annuity equal to 50% of salary at the time of death.

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.

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

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

Contributions

The City is required to contribute the greater of an actuarially determined rate or minimum contribution required by the collective bargaining agreement. 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 Union and the City.

The City's contribution to the Fund is actuarially determined and is intended to set aside amounts to cover the cost 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 are required to contribute 6.25% of their salary until they have reached 32 years of credited service.

Trust Fund Managed by National Financial Services LLC and Merrill Lynch, Pierce, Fenner & Smith, Incorporated

Under the terms of trust agreements between National Financial Services LLC and Merrill Lynch, Pierce, Fenner & Smith, Incorporated (the "Custodians") and the Fund, the Custodians administer the 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.

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.

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

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 stocks, corporate bonds, 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. The fair value of the hedge funds has been estimated using the net asset value ("NAV") as reported by the management of the fund. FASB guidance provides for the use of NAV as a "*Practical Expedient*" for estimating the fair value of alternative investments. NAV reported by the hedge funds is used as a practical expedient to estimate the fair value of the Plan's interest therein. Investments in other 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. Private placement securities are valued at an estimated fair value as determined by the fund managers. Factors considered in valuing private placements include: the cost, restrictions on disposition, prices of recent additional financings by the same issuer, changes in the financial condition of the issuer, pending mergers and acquisitions, and estimates of liquidation value. Private placement securities of a public company are priced daily at a 20% discount to market price. The discount is removed when the security becomes freely tradable (marketable). Private placement securities of private companies are carried at cost at acquisition. Adjustments to the pricing of the private placement will be made upon the occurrence of significant events as determined by the fund manager.

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 (depreciation) includes the Fund's gains and losses on investments bought and sold as well as held during the year.

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

2. Summary of Significant Accounting Policies (continued)

Administrative Expenses

Certain expenses of the Fund are paid by the City.

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 February 20, 2013.

3. Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation (asset) to the Fund for the year ended June 30, 2012 (rounded to the nearest thousand) are as follows:

Annual required contribution	\$2,080,000
Interest on net pension obligation	3,000
Adjustment to annual required contribution	<u>(4,000)</u>
Annual pension cost	2,079,000
Contribution made	<u>(2,080,000)</u>
Decrease in net pension obligation	(1,000)
Net pension obligation, beginning of year	<u>37,000</u>
Net pension obligation, end of year	<u>\$ 36,000</u>

Membership in the Fund consisted of the following at July 1, 2011, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	209
Terminated plan members entitled to a refund of employee contributions but have elected to defer receipt	1
Active plan members	<u>268</u>
	<u>478</u>

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

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

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 (Asset)
2012	\$ 2,079,000	100.0%	\$ 36,000
2011	1,716,000	100.1	37,000
2010	405,000	100.2	38,000

4. Investments

Investments at June 30, 2012 consist of the following:

Corporate bonds	\$ 16,772,514
U.S. Government Obligations	10,721,979
Alternative investments	22,307,503
Mutual funds	7,316,143
Domestic and international common/ preferred stocks	<u>55,340,447</u>
	<u>\$ 112,458,586</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 asset allocation is as follows:

	Minimum Allocation	Maximum Allocation
Cash	0%	20%
Equities	40%	80%
Bonds	15%	40%
Alternatives	0%	20%

The following investment represents 5% or more of the Fund's net assets held in trust for pension benefits at June 30, 2012:

Beach Point Access Ltd	\$ 9,772,762
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**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

4. Investments (continued)

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

Private placements are restricted securities that are not registered with the Securities and Exchange Commission for public sale in the United States of America. These securities may have contractual restrictions on resale and may be revalued under methods approved by the fund manager as to fair value. A security may be considered illiquid if it lacks a readily available market.

The following are the minimum ratings for corporate bonds as of June 30, 2012:

Average Rating	Amount
A1	\$ 1,219,803
A2	1,083,017
A3	1,057,168
Aa2	55,383
B1	2,852,564
B2	2,409,333
B3	3,022,990
Ba1	297,425
Ba2	506,119
Ba3	1,446,147
Baa1	779,166
Baa2	1,170,343
Baa3	273,350
Caa1	599,706
	\$ 16,772,514

The Fund's investments in corporate bonds U.S. Government obligations and corporate bonds mature as follows:

Type of Investment	Fair Value	Investments Maturities (Years)			
		Less than 1 Year	1-5 Years	6-10 Years	Over 10 Years
Corporate bonds	\$16,772,514	\$ 510,418	\$5,868,068	\$ 9,243,920	\$1,150,108
U.S. Government obligations	10,721,979	2,231,388	1,966,319	3,515,950	3,008,322
	\$27,494,493	\$2,741,806	\$7,834,387	\$12,759,870	\$4,158,430

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

4. Investments (continued)

The Plan currently invests in several hedge funds which are: ML Fortress Partners Offshore Fund L.P., ML Private Equity Fund LLC, Global Macro HedgeAccess Ltd., Ivy Rising Stars Access Ltd., Beach Point Access Ltd., Blackstone Real Estate Partners, Mountain Lake real Estate Fund LP and Zephyr Peacock India Fund III Limited (collectively the "Funds"). Each Fund is a fund of diversified funds with a broad investment objective. There is no obligation for the Plan to make future contributions to the Funds. The redemption frequency of the Funds ranges from quarterly to annually.

5. Actuarial Assumptions and Schedule of Funding Progress

The actuarial assumptions and methods used for the July 1, 2011 actuarial valuation were based on July 1, 2010 data, cost information and assumptions. The July 1, 2010 liabilities were then projected to July 1, 2011. The last 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, 2011 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")	Underfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/11	\$135,656,000	\$139,939,000	\$ (4,283,000)	96.9%	\$22,638,000	(18.9%)

There was a change from the previous year valuation in which the City changed its funding policy and will now contribute at the beginning of each fiscal year.

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

6. Investments under the Term Asset-Backed Securities Loan Facility ("TALF")

On November 25, 2008, the U.S. Treasury Department and the Federal Reserve announced the creation of the TALF. The TALF is intended to make credit available to consumers and businesses on more favorable terms by facilitating the issuance of asset-backed securities and improving the market conditions for asset-backed securities generally. Under TALF, the Federal Reserve makes non-recourse loans, with terms ranging from three to five years, to borrowers to fund purchases of asset-backed securities to any eligible borrower owning eligible collateral. The underlying credit exposures of eligible asset-backed securities must be auto loans, student loans, credit card loans, equipment loans, floorplan loans, insurance premium finance loans, small business loans fully guaranteed as to principal and interest by the U.S. Small Business Administration, or receivables related to residential mortgage servicing advances. The U.S. Treasury Department will provide \$20 billion of credit protection to the Federal Reserve in connection with TALF. TALF was closed for new loan extensions against newly issued commercial mortgage-backed securities on June 30, 2010, and for new loan extensions against all other types of collateral on March 31, 2010. Therefore, there is no obligation for the Fund to make future contributions. The Fund makes interest payments on TALF loans from the interest paid to the Fund on the assets used as collateral for the TALF loans. To the extent that the Fund receives distributions from pledged assets in excess of the required interest payments on the TALF loans during any loan year, the amount of excess interest may be retained by the Fund.

Bank of New York Mellon served as the custodian for all TALF assets of the Fund. During the year ended June 30, 2012, the Fund sold their TALF assets and paid the Fund's TALF contractual commitments.

7. 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.

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

Notes to Financial Statements
June 30, 2012

7. Risks and Uncertainties (continued)

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. See note 4 for the maturities of such investments.

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. See note 4 for the rating of 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
Firefighters' Pension Trust Fund**

Supplementary Information

June 30, 2012

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

**Schedule of Funding Progress
June 30, 2012**

	<u>7/01/11</u>	<u>07/01/10</u>	<u>07/01/09</u>	<u>07/01/08</u>	<u>07/01/07</u>
Actuarial value of plan assets (a)	\$ 135,656,000	\$ 130,796,000	\$ 131,369,000	\$ 138,360,000	\$ 134,356,000
Actuarial accrued liability (AAL) (b)	139,939,000	133,421,000	130,475,000	123,434,000	119,150,000
(Underfunded) overfunded actuarial accrued liability (UAAL) (b-a)	(4,283,000)	(2,625,000)	894,000	14,926,000	15,206,000
Funded ratio (a/b)	96.9%	98.0%	100.7%	112.1%	112.8%
Annual covered payroll (c)	22,638,000	21,663,000	19,292,000	18,461,000	18,835,000
UAAL as a percentage of covered payroll ((b-a)/c)	(18.9%)	(12.1%)	4.6%	80.9%	80.7%

See independent auditors' report

**City of Stamford, Connecticut
Firefighters' Pension Trust Fund**

**Schedule of Employer Contributions
June 30, 2012**

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution *</u>	<u>Percentage Contributed</u>	<u>Actual Contribution *</u>
2012	\$ 2,080,000	100.0%	\$ 2,080,000
2011	1,717,000	100.0%	1,717,000
2010	406,000	100.0%	406,000
2009	406,000	16.0%	65,000
2008	409,000	154.0%	630,000

* - Rounded to the nearest thousand.