

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

FINANCIAL STATEMENTS

JUNE 30, 2016

Kevin J. Buckley, CPA
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INDEPENDENT AUDITOR'S REPORT

Retirement Board
Employees' Retirement Plan of The
Town of Hamden, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the Employees' Retirement Plan of The Town of Hamden, a component unit of the Town of Hamden, Connecticut, which are comprised of the Statements of Fiduciary Net Position as of June 30, 2016 and 2015, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related Notes to Financial Statements.

Plan 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 the Plan's financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 plan'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 plan'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 financial position of the Employees' Retirement Plan of The Town of Hamden as of June 30, 2016 and 2015, and the respective changes in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis on pages (i) through (iv), and the information included in schedules I through IV on pages 11 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information in Schedule V on page 15 is presented for purposes of additional analysis and is not a required part of the basic 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 taken as a whole.

Buckley, Frame, Boudreau & Co., P.C.

BUCKLEY, FRAME, BOUDREAU & CO., P.C.
Certified Public Accountants

February 10, 2017
Killingworth, Connecticut

EMPLOYEES' RETIREMENT PLAN OF
THE TOWN OF HAMDEN, CONNECTICUT
Management's Discussion and Analysis
June 30, 2016

To introduce you to the financial report of the Employees' Retirement Plan of the Town of Hamden, Connecticut (the Plan), we, as management, are pleased to provide this discussion and analysis of financial activities for the year ended June 30, 2016. Please read it in conjunction with the rest of the report, which consists of the (1) basic financial statements, including the notes thereto, and (2) required supplementary information.

The Retirement Board has the fiduciary responsibility to administer the defined benefit pension plan for town employees. The Plan provides specific benefits to eligible employees at retirement or disability, and to their beneficiaries in case of death.

Financial Highlights

- For the year ended June 30, 2016, Plan net position decreased by \$8.8 million. The Plan benefits paid and plan expenses of \$24.6 million exceeded net investment income of \$1.5 million and employer and employee contributions of \$14.3 million. This is compared to an increase in Plan net position of \$113.5 million for the year ended June 30, 2015, which included the \$122.3 million of proceeds from the Town's issue of \$125 million of Pension Deficit Obligation Bonds.
- The Plan paid \$24.4 million in benefits during 2015-16, compared to \$24.3 million paid during 2014-15. Benefit payments increased because of increases in the number of retirees and beneficiaries.
- The Plan received approximately \$14.3 million in employer and employee contributions during 2015-16. Employer contributions were \$12.1 million for the year ended June 30, 2016 and \$14.8 million for the year ended June 30, 2015. Employee contributions were \$2.20 million for the year ended June 30, 2016 and \$2.23 million for the year ended June 30, 2015.
- As of July 1, 2016, the date of the Plan's most recent actuarial valuation, the Plan is actuarially funded at 37.39%. This compares with a funded ratio of 36.89% as of July 1, 2015. The market value of assets decreased from \$163.6 million to \$154.8 million; the smoothed actuarial value of assets decreased from \$167.6 million to \$165.1 million. On a market value basis, the funded ratio decreased from 36.01% to 35.07%. The Plan is closed to new entrants, and the number of active participants is declining due to retirements and other attrition. Over the year, the active population has declined by approximately 4%, from 425 to 408.
- Public Act 14-217, adopted by the Connecticut General Assembly in June 2014, allows the Town to "ramp up" its Annual Required Contribution (ARC) to the Retirement Plan. The ARC for the year ended June 30, 2016 was \$21,998,113; the Town contributed \$12,100,000 (55%), as required. The ARC for the year ended June 30, 2015 was \$29,536,050; the Town contributed \$14,768,025 (50%), as required. For the fiscal year ending June 30, 2017, the Town is required to contribute at least 70% of the current ARC, \$21,067,247, or \$14,747,073. The ARC will be updated annually, and the required contribution percentage will climb to 80% for 2018, and 100% thereafter.
- Effective for the year ending June 30, 2014, the Plan adopted the provisions of Governmental Accounting Standards Board Statement No. 67 – Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25. Statement No. 67 establishes revised standards for financial reporting and specifies the required approach for measuring the pension liability for employer benefits provided through the plan.

Overview of the Financial Statements

Basic Financial Statements

In this financial report, the basic financial statements consist of the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position with accompanying Notes. Each of those financial statements present information for the Plan as of or for the year ended June 30, 2016 and comparative information as of and for the year ended June 30, 2015.

The Statement of Fiduciary Net Position presents the financial position of the Plan. The financial position is simply assets (primarily investments) less liabilities (primarily accounts payable and accrued expenses). The difference between assets and liabilities is net assets, which represents the amount of resources available to pay future benefits to retirees. Investments consist of domestic and international fixed income and equity securities, and mutual funds. The liability for future Plan benefit payments (*net pension liability*) is reported in the notes to the financial statements and in the required supplementary information.

The Statement of Changes in Fiduciary Net Position presents the additions to and deductions from the Plan's net position during the year. The Plan receives contributions from employees and from the Town as well as income or losses from investments and related activity. The primary deductions are to pay benefits, which is the Plan's primary purpose. Benefit payments include refunds of employee contributions to members who leave the Plan prior to vesting. Deductions also include administrative expenses. The change in Fiduciary Net Position during the year is added to or subtracted from the beginning balance of Fiduciary Net Position to obtain the balance of Fiduciary Net Position at the end of the year. This figure reconciles directly to the last line of the Statement of Fiduciary Net Position.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the basic financial statements. They provide background and more details about the information in the financial statements. Among other matters, the notes describe —

- The Plan's purpose and its membership
- The significant accounting policies used in the preparation of the basic financial statements
- The nature of the Plan, including the membership and benefit provisions and contribution requirements
- The Plan investment policies, how investments are held and safeguarded, and selected details about various investment activity and balances
- The Total Pension Liability, the Plan's Fiduciary Net Position, the Net Pension Liability, and the Plan's Fiduciary Net Position as a percentage of the total pension liability

Required Supplementary Information

To provide actuarially determined information about the Plan, this report includes two schedules of historical trend information in the Required Supplementary Information (RSI) section. Those two schedules, the Schedule of Changes in the Plan's Net Pension Liability and the Schedule of Employer Contributions, provide actuarial information to help you understand the changes in the actuarial funding and the funded status of the Plan over time. Please note that actuarial information is based upon assumptions about future events; therefore, the figures presented are estimates that could change as actual events and circumstances develop.

The Schedule of Changes in the Plan's Net Pension Liability provides information about the progress made to accumulate sufficient assets to pay benefits when due. It presents information about the components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll. The Schedule of Employer Contributions presents information about the actuarially determined contribution, contributions made to the pension plan, and related ratios.

Summary and Analysis of Financial Information

The following Condensed Statements of Fiduciary Net Position and Changes in Fiduciary Net Position present financial information for the Plan, comparing June 2016 and June 2015 information. This information comes from the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position for those two years:

EMPLOYEES' RETIREMENT PLAN OF THE TOWN OF HAMDEN, CONNECTICUT

Condensed Statement of Fiduciary Net Position

	June 30		Change	
	2016	2015	Amount	%ge
ASSETS				
Cash and short term investments	\$ 3,916,417	\$ 43,209,796	\$ (39,293,379)	-90.9%
Receivables and prepaid expenses	98,302	80,692	17,610	21.8%
Due from broker for securities sold	255,618	-	255,618	n/a
Investments at fair value	150,683,968	137,711,317	12,972,651	9.4%
Total assets	<u>154,954,305</u>	<u>181,001,805</u>	<u>(26,047,500)</u>	<u>-14.4%</u>
LIABILITIES				
Due to broker for securities purchased	-	17,310,963	(17,310,963)	-100.0%
Accounts payable and accrued expenses	120,181	65,189	54,992	84.4%
Total liabilities	<u>120,181</u>	<u>17,376,152</u>	<u>(17,255,971)</u>	<u>84.4%</u>
Net position - restricted for pension benefits	<u>\$ 154,834,124</u>	<u>\$ 163,625,653</u>	<u>\$ (8,791,529)</u>	<u>-5.4%</u>

Condensed Statement of Changes in Fiduciary Net Position

ADDITIONS				
Income from pension deficit funding bond	\$ -	\$ 122,303,087	\$ (122,303,087)	-100.0%
Employer contributions	12,100,000	14,768,025	(2,668,025)	-18.1%
Employee contributions	2,195,488	2,232,086	(36,598)	-1.6%
Investment income (loss)	1,468,812	(1,355,734)	2,824,546	-208.3%
Total additions	<u>15,764,300</u>	<u>137,947,464</u>	<u>(122,183,164)</u>	<u>-88.6%</u>
DEDUCTIONS				
Benefit payments	24,437,110	24,325,333	111,777	0.5%
Administrative expenses	118,719	109,273	9,446	8.6%
Total deductions	<u>24,555,829</u>	<u>24,434,606</u>	<u>121,223</u>	<u>0.5%</u>
Net (decrease) increase in position - restricted for pension benefits	<u>\$ (8,791,529)</u>	<u>\$ 113,512,858</u>	<u>\$ (122,304,387)</u>	<u>-107.7%</u>

- Plan net position decreased by \$8.8 million for the year ended June 30, 2016 as compared with an increase of \$113.5 million for the year ended June 30, 2015.

- The Plan recognized net investment income of \$1.5 million for the year ended June 30, 2016 as compared with a net investment loss of \$1.4 million for the year ended June 30, 2015.

- The Plan's funding objective is to meet long-term benefit promises through contributions and net investment income. The ratio of fiduciary net position, the plan fiduciary net position divided by the total pension liability, is a representation of how well the Plan is meeting that objective. The manner of calculating the funded ratio changed during fiscal year 2014 due to the adoption of GASB Statement No. 67, Financial Reporting for Pension Plans. At June 30, 2016, the total pension liability was \$441,521,657 and the Plan Fiduciary Net Position was \$154,834,124, resulting in a ratio of fiduciary net position to total pension liability of 35.07%. At June 30, 2015, the total pension liability was \$454,437,941 and the Plan Fiduciary Net Position was \$163,625,653, resulting in a ratio of fiduciary net position to total pension liability of 36.01%.

- During the 2014 fiscal year, the Town of Hamden issued \$125 million in General Obligation Bonds for pension deficit funding, pursuant to Section 7-374c of the Connecticut General Statutes (the "Pension Statute") and a resolution adopted by the Town Council in July 2013. As a result, the Retirement Plan received \$122.3 million in March 2015.

- The Plan paid \$24.4 million in retirement benefits to approximately 720 members and beneficiaries during the year ended June 30, 2016, compared to \$24.3 million paid to approximately 730 members and beneficiaries during the year ended June 30, 2015. These amounts include payments of refunds of employee contributions to members who left the Plan prior to vesting of \$0.00 for the year ended June 30, 2016 and approximately \$44,700 for the year ended June 30, 2015.

- The Plan received \$2.20 million in contributions from approximately 408 employees for the year ended June 30, 2016, as compared with \$2.23 million for the year ended June 30, 2015. Employer contributions were \$12.1 million for the year ended June 30, 2016, and \$14.8 million for the year ended June 30, 2015.

This Financial Report provides a general overview of the Employees' Retirement Plan of the Town of Hamden. For additional information contact the Town of Hamden, 2750 Dixwell Avenue, Hamden, Connecticut 06518.

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Statement of Fiduciary Net Position

	June 30	
	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
<u>Cash and short-term investments</u>	\$ 3,916,417	\$ 43,209,796
<u>Receivables</u>		
Employee contributions	62,715	64,007
Due from broker for securities sold	255,618	-
Interest and dividends	20,970	2,068
Total receivables	<u>339,303</u>	<u>66,075</u>
<u>Investments, at fair value</u>		
Common stock	29,529,425	55,021,123
Mutual funds	95,473,035	74,586,052
Equity Real Estate	25,681,508	8,104,142
Total investments	<u>150,683,968</u>	<u>137,711,317</u>
<u>Other Assets</u>		
Prepaid expenses	<u>14,617</u>	<u>14,617</u>
 Total assets	 <u>\$ 154,954,305</u>	 <u>\$ 181,001,805</u>
<u>LIABILITIES</u>		
Due to broker for securities purchased	-	17,310,963
Accounts payable and accrued expenses	<u>120,181</u>	<u>65,189</u>
Total liabilities	<u>120,181</u>	<u>17,376,152</u>
 <u>Net Position Restricted for Pension Benefits</u>	 <u>\$ 154,834,124</u>	 <u>\$ 163,625,653</u>

The accompanying notes are an integral part of these financial statements.

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Statement of Changes in Fiduciary Net Position

	Years Ended June 30	
	2016	2015
<u>ADDITIONS</u>		
<u>Contributions</u>		
Income from pension deficit funding bond	\$ -	\$ 122,303,087
Town of Hamden	12,100,000	14,768,025
Employees	2,195,488	2,232,086
Total contributions	14,295,488	139,303,198
<u>Investment Income</u>		
Net decrease in fair value of investments	(1,376,414)	(2,830,619)
Interest and dividends	3,192,122	1,629,339
Total	1,815,708	(1,201,280)
Less investment expenses	346,896	154,454
Net investment income (loss)	1,468,812	(1,355,734)
 Total additions	 15,764,300	 137,947,464
<u>DEDUCTIONS</u>		
Benefits paid directly to participants	24,437,110	24,325,333
Administrative expenses (Schedule V)	118,719	109,273
Total deductions	24,555,829	24,434,606
Net (decrease) increase in Fiduciary Net Position	(8,791,529)	113,512,858
<u>Net Position Restricted for Pension Benefits</u>		
Beginning of year	163,625,653	50,112,795
End of year	\$ 154,834,124	\$ 163,625,653

The accompanying notes are an integral part of these financial statements.

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Notes to Financial Statements

June 30, 2016

The Employees' Retirement Plan of the Town of Hamden, Connecticut (the Plan) was established in 1949 (amended and restated effective July 1, 2000) under a trust agreement and is a single-employer, contributory, defined benefit pension plan administered by a board of trustees. Substantially all full-time employees of the Town of Hamden and its related agencies, hired prior to July 1, 2007, are covered by the Plan. Although the Plan is presented in separate financial statements, it is also a component unit of the Town of Hamden's financial reporting entity.

The Retirement Board is responsible for the organization and administration of the Plan. The Board comprises eleven members: two Guardian employee members, two Service employee members, one member of the Plan who is not a member of a bargaining unit, four persons who are not members of the Plan, the Mayor and the Finance Director. The Board oversees the Plan and sets policies for operations, including appointing management and directing investment decisions.

A - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared in accordance with the standards of the Governmental Accounting Standards Board (GASB) for pension trust funds. The financial statements are 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 Plan. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date.

Valuation of Investments

Investments are stated at current market values, based on quoted market prices, as represented by Wells Fargo Institutional Retirement and Trust (Wells Fargo Bank, N.A.), the investment custodian. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. Sentinel Real Estate Fund and U.S. Real Estate Investment Fund, LLC engage independent appraisers to value 100% of the real estate owned for at least 12 months, at various times throughout the year.

Derivative Financial Instruments

The Plan, at times, has only limited, indirect involvement with derivative financial instruments through certain investments. The Plan is unable to quantify any potential losses due to credit and market risks inherent in these investments; however, the investment managers believe the risk of incurring loss is remote and any loss would not be material.

Administrative Expenses

The Town of Hamden, the Plan sponsor, pays additional significant costs of Plan administration and office expense.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Notes to Financial Statements
- Continued -

June 30, 2016

B - Plan Description, Contribution Information, and Funding Policies

As of July 1, 2016, the most recent valuation date, employee membership data was as follows:

Retirees and beneficiaries receiving benefits	722
Terminated employees entitled to benefits but not yet receiving them	<u>24</u>
	<u>746</u>
Active plan participants:	
Vested (fully or partially)	395
Non-vested	<u>13</u>
	<u>408</u>

The Plan provides retirement benefits, disability retirement benefits and pre-retirement and post-retirement death benefits. The Plan includes specific benefit provisions, vesting rules and employee contribution rules for the following employee classifications: guardian employees and service employees. Guardian employees are defined as full-time employees who are members of the police or fire department. All other town employees are considered Service employees. The Plan provides for an annual cost of living adjustment to pension benefit payments based on changes in the consumer pricing index.

Members begin to vest their retirement benefits after completion of ten years of credited service, and full vesting is attained after completion of fifteen years of service.

Guardian employees hired after July 1, 2006 participate in the Connecticut Municipal Employees Retirement System (CMERS) and are not eligible to participate in the Plan. Service employees hired after July 1, 2007 participate in the Connecticut Municipal Employees Retirement System (CMERS) and are not eligible to participate in the Plan.

The Town of Hamden makes contributions to the Plan at the discretion of the Legislative Council.

Plan provisions include mandatory employee contributions by service employees and guardian employees. All employee contributions are made on a pre-tax basis. These contributions are negotiated as part of the collective bargaining agreements.

Service employees contribute 7.75% of their annual covered salary (8.0% effective July 1, 2016). Guardian employees contribute 8.5% of covered salary. Covered salary includes regular payroll, vacation, holiday, personal, longevity and sick time payroll.

Employees are 100% vested in their contributions to the Plan. If a member leaves employment prior to becoming eligible for benefits, all accumulated employee contributions will be paid to the member in the form of a lump sum payment with interest calculated at 5% per year.

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Notes to Financial Statements
- Continued -

June 30, 2016

C - Plan Amendment or Termination

The Plan may be discontinued or amended in any respect at any time by action of the Legislative Council of the Town, subject to applicable general laws and special acts of the State of Connecticut provided that no such discontinuance or amendment shall adversely affect the rights of members or their beneficiaries which had become fully vested at the date of discontinuance or amendment. Upon discontinuation or amendment of the Plan, no part of the funds of the Plan may be used for or diverted to purposes other than for the exclusive benefit of members and their beneficiaries or contingent annuitants under the Plan, prior to the satisfaction of all liabilities under the Plan.

D - Investments

The Retirement Board has contracted with Dahab Associates, Inc. to act as the Plan's investment advisors.

Plan investments are held in the name of the plan by Wells Fargo Institutional Retirement and Trust (Wells Fargo Bank, N.A.), the investment custodian except for Sentinel Real Estate Fund and U.S. Real Estate Investment Fund, LLC. Investments are managed by Brown Advisory, Great Lakes Advisors, Sentinel Real Estate Fund, U.S. Real Estate Investment Fund, LLC and through various exchange traded funds and mutual funds. As of June 30, 2015, the Plan has discontinued its asset management relationships with C. S. McKee Investment Managers and Columbia Partners, LLC.

A summary of plan investments at fair value and cost is as follows:

	June 30, 2016	
	<u>Fair Value</u>	<u>Cost</u>
Common Stock	\$ 29,529,425	\$ 29,369,575
Mutual Funds	95,473,035	98,442,725
Equity Real Estate	25,681,508	24,600,151
	<u>\$ 150,683,968</u>	<u>\$ 152,412,451</u>
	June 30, 2015	
	<u>Fair Value</u>	<u>Cost</u>
Common Stock	\$ 55,021,123	\$ 53,047,111
Mutual Funds	74,586,052	77,540,466
Equity Real Estate	8,104,142	8,001,076
	<u>\$ 137,711,317</u>	<u>\$ 138,588,653</u>

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Notes to Financial Statements
- Continued -

June 30, 2016

D – Investments (continued)

The Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value as follows:

	<u>Years Ended June 30</u>	
	<u>2016</u>	<u>2015</u>
Common Stock	\$ (1,887,025)	\$ (167,821)
Mutual Funds	(475,536)	(2,765,864)
Equity Real Estate	<u>986,147</u>	<u>103,066</u>
	<u>\$ (1,376,414)</u>	<u>\$ (2,830,619)</u>

Investment Policies – Investments of the Plan will be made for the purpose of providing retirement reserves for the future benefit of participants of the Plan and their beneficiaries. The assets must be invested with the care, skill, and diligence that a prudent person acting in this capacity would exercise to comply with all objectives outlined herein, the Investment Advisors Act of 1940 and all other governing statutes.

The Board's investment policies are designed to limit the Plan's exposure to Concentrations of Credit Risk through investment diversification, periodic rebalancing and minimum standards for the quality and ratings of investments, and target allocations for the classes of investments within the portfolio.

Based on the recommendations of the Plan's investment advisors, the Board has established reasonable guidelines for each asset class, specifying acceptable and/or prohibited investments, limits on asset and asset class exposures, risk constraints, and investment return objectives. The Board will from time-to-time elect to invest in commingled funds, recognizing the benefits of such funds as investment vehicles, the ability to diversify more extensively than in small, direct investment accounts and the lower costs that are generally associated with these funds.

Investment management of the assets of the Town shall be in accordance with the following asset allocation guidelines:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities			
Large Cap	15%	35%	25%
Small Cap	0%	10%	5%
Mid Cap	0%	10%	5%
International	5%	15%	10%
Fixed Income	30%	50%	40%
Real Estate Investment Trusts	10%	20%	15%
Cash and Equivalents		Minimal	

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Notes to Financial Statements
- Continued -

June 30, 2016

D – Investments (continued)

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board's investment policies provide benchmarks that limit investment maturities as a means of managing Plan exposure to fair value losses arising from increasing interest rates.

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. U.S. government securities or obligations of U.S. government agencies explicitly guaranteed by the U.S. government are not considered to have credit risk exposure.

The Plan's fixed income portfolio is managed through its investments in PIMCO Total Return Fund Institutional Class and Metwest Total Return Bond Fund. As of September 30, 2016, the PIMCO Total Return Fund and Metwest Total Return Bond Fund duration was 5.63 years and 4.91 years, respectively. While PIMCO Total Return Fund Institutional Class and Metwest Total Return Bond Fund have not been rated by any nationally recognized agency, the funds emphasize higher-quality intermediate-term bonds. At June 30, 2016 investments in these Funds totaled \$57,835,907.

Foreign Currency Risk – Exposure to foreign currency risk results from investments in foreign currency-denominated securities. The Board's investment policy regarding foreign currency risk places limits on the type of foreign investments and value of investments in individual foreign companies.

The Plan's international equity portfolio is managed through its investments in Aberdeen International Equity Institutional Fund and MFS Institutional International. These Funds seek long-term capital appreciation by investing primarily in equity securities of companies located in Europe, Australasia, the Far East and other regions, including emerging countries. Under normal circumstances, the Funds' policy is to invest at least 80% of the value of its net assets, plus any borrowings for investment purposes, in equity securities issued by companies that are located in, or that derive the highest concentration of their earnings or revenues from, a number of countries around the world other than the United States. At June 30, 2016 investments in these Funds totaled \$14,348,808.

Rate of Return – For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses was 0.94%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E – Custodial Credit Risk - Investments

Investment custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a formal policy for custodial credit risk. As of June 30, 2016, all investments are held by the Plan's primary custodian and registered in the Plan's name, except for Sentinel Real Estate Fund and U.S. Real Estate Investment Fund, LLC, which are not held by Wells Fargo Institutional Retirement and Trust and are subject to custodial credit risk.

Government accounting standards require pension plans to disclose concentrations of investments with individual organizations equaling or exceeding 5 percent of the plan's fiduciary net position. As of June 30, 2016 the Plan's investment in the Sentinel Real Estate Fund and U.S. Real Estate Investment Fund, LLC, valued at \$17,563,158 and \$8,118,350, respectively, was approximately 5 percent of the plan's fiduciary net position.

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Notes to Financial Statements
- Continued -

June 30, 2016

F – Custodial Credit Risk - Deposits with Financial Institutions

The Plan maintains cash balances in two financial institutions located in the State of Connecticut. One account is used to pay monthly pension benefits. The other account is used to hold short-term cash investments. At times during the year ended June 30, 2016 the Plan's balances exceeded the Federal Deposit Insurance Corporation (FDIC) insured limit. At June 30, 2016 the carrying amount of deposits was \$2,075,817 and the bank balance totaled \$2,087,273. Account balances are insured by the FDIC up to \$250,000 at each financial institution. Section 36a-333 of the Connecticut General Statutes requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio. In accordance with this statute, a minimum of \$183,727 based on June 30, 2016 deposits was collateralized by securities held by the pledging financial institutions, or by their trust departments, but not in the Town's name. The balance of deposits of \$1,653,546 was uninsured and uncollateralized.

G – Custodial Credit Risk – Cash Equivalents

The Plan considers cash invested by the investment custodian in Wells Fargo Advantage 100% Treasury Money Market Fund, as cash equivalents. The fund invests in short-term U.S Treasury obligations, has an S & P rating of AAAM and a duration of 65 days. The cash equivalents balance as of June 30, 2016 was \$1,840,600. Cash equivalents are uninsured and uncollateralized.

H – Net Pension Liability and Actuarial Information

The components of the net pension liability of the employer at June 30, 2016 were as follows:

Total Pension Liability	\$ 441,521,657
Plan Fiduciary Net Position	<u>(154,834,124)</u>
Employer's Net Pension Liability	<u>\$ 286,687,533</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>35.07%</u>

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	2.50%
Investment rate of return	7.00%, including inflation, net of investment expenses
Cost-of-living adjustments	2.25%

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Notes to Financial Statements
- Continued -

June 30, 2016

H – Net Pension Liability and Actuarial Information (continued)

Healthy mortality rates were based on the sex-distinct RP-2000 Combined Healthy Mortality Table, projected 24 years with Scale BB. Disabled mortality rates for males were based on the sex-distinct RP-2000 Disabled Retiree Mortality Table, projected 24 years with Scale BB.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	30%	6.75%
International equity	10%	7.45%
Fixed income	40%	1.75%
Global tactical asset allocation	10%	3.75%
Real estate	<u>10%</u>	4.55%
Total	100%	

Discount rate: The blended discount rate used to measure the total pension liability is 7.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current negotiated contribution rates: 8.50% of annual compensation for Guardians, and 8.0% of annual compensation for Service employees. Town contributions are assumed to be made in accordance with Section 219 of Public Act 14-217, specifically 70% of the actuarially determined contribution for the fiscal year ending June 30, 2017, 80% of the actuarially determined contribution for the fiscal year ending June 30, 2018, and 100% of the actuarially determined contribution thereafter. The actuarially determined contribution is equal to the total normal cost plus a 30-year closed amortization of the unfunded actuarial accrued liability, beginning July 1, 2014 (28 years remaining). Amortization payments are expected to grow by 2% annually. Based on these assumptions, the Retirement Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The long-term expected rate of return on Retirement Plan investments was applied to the projected benefit payments.

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

Notes to Financial Statements
- Continued -

June 30, 2016

H – Net Pension Liability and Actuarial Information (continued)

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Retirement Plan, calculated using the discount rate of 7.00%, as well as what the Retirement Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease <u>(6.00%)</u>	Current Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Net Pension Liability	\$ 340,008,912	\$286,687,533	\$242,283,412

I – New Pronouncements

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), effective for Plan years beginning after June 30, 2013. GASB 65 provides further guidance on determining which balances currently reported as assets and liabilities should instead be reported as deferred outflows or deferred inflows of resources. The adoption of GASB 65 did not have a significant impact on the Plan's financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information (RSI) for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. Adoption of GASB 67 had no impact on the Plan's net position but did result in changes to the presentation of the financial statements, notes to the financial statements, and RSI. Comparative information has not been presented for disclosures required by GASB 67 as presentation of the information for prior years was not practical.

H – Subsequent Events

Public Act 14-217, adopted by the Connecticut General Assembly in June 2014, allows the Town to "ramp up" its Annual Required Contribution (ARC) to the Retirement Plan. For the fiscal year ending June 30, 2017, the Town is required to contribute at least 70% of the current ARC, or \$14,747,073.

We evaluated events occurring between the end of the most recent fiscal year and February 10, 2017, the date the financial statements were available to be issued.

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

SCHEDULE I

Required Supplementary Information - Unaudited
Schedules of Changes in Retirement Plan's Net Pension Liability

	June 30 2016	June 30 2015	June 30 2014	June 30 2013 *
<u>Total pension liability</u>				
Service cost	\$ 5,888,328	\$ 6,209,591	\$ 6,238,891	
Interest	30,955,497	30,823,699	31,148,927	
Change of benefit terms	1,347,205	(10,769,246)	5,302,529	
Differences between expected and actual experience	(26,672,204)	-	-	
Changes of assumptions	(24,437,110)	(24,325,333)	(23,582,140)	
Benefit payments, including refunds of employee contributions	(12,918,284)	1,938,711	19,108,207	
<u>Net change in total pension liability</u>	<u>454,439,941</u>	<u>452,501,230</u>	<u>433,393,023</u>	
Total pension liability - beginning				
<u>Total pension liability - ending (a)</u>	<u>\$ 441,521,657</u>	<u>\$ 454,439,941</u>	<u>\$ 452,501,230</u>	
<u>Plan fiduciary net position</u>				
Contributions - employer	\$ 12,100,000	\$ 137,071,112	\$ 12,500,000	
Contributions - employee	2,195,488	2,232,086	2,181,831	
Net investment income (loss)	1,468,812	(1,355,734)	6,996,801	
Benefit payments, including refunds of employee contributions	(24,437,110)	(24,325,333)	(23,582,140)	
Administrative expense	(118,719)	(109,273)	(76,352)	
<u>Net change in plan fiduciary net position</u>	<u>(8,791,529)</u>	<u>113,512,858</u>	<u>(1,979,860)</u>	
Plan fiduciary net position - beginning	163,625,653	50,112,795	52,092,655	
<u>Plan fiduciary net position - ending (b)</u>	<u>154,834,124</u>	<u>163,625,653</u>	<u>50,112,795</u>	
Employer's net pension liability - ending (a) - (b)	<u>\$ 286,687,533</u>	<u>\$ 290,814,288</u>	<u>\$ 402,388,435</u>	

Notes to Schedule:

Benefit Changes: There have been no changes in benefit provisions since GASB 67 was implemented
Changes of Assumptions: There have been no assumption changes since GASB 67 was implemented
Employer Contributions: The employer contributions for 2015 include one-time pension deficit bond funding of \$122,303,087
*: Historical information prior to July 1, 2013 implementation of GASB 67 is not required

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

SCHEDULE II

Required Supplementary Information - Unaudited
Schedule of Retirement Plan's Net Pension Liability

	June 30 2016	June 30 2015	June 30 2014	June 30 2013 *
Total pension liability	\$ 441,521,657	\$ 454,439,941	\$ 452,501,230	
Plan fiduciary net position – ending (b)	154,834,124	163,625,653	50,112,795	
Net Pension Liability	\$ 286,687,533	\$ 290,814,288	\$ 402,388,435	
Plan fiduciary net position as a percentage of the total pension liability	35.07%	36.01%	11.07%	
Covered employee payroll	\$ 28,397,008	\$ 28,992,189	\$ 29,347,110	
Employer's net pension liability as percentage of covered employee payroll	1009.57%	1,003.08%	1,371.13%	

Notes to Schedule:

Benefit Changes: There have been no changes in benefit provisions since GASB 67 was implemented
Changes of Assumptions: There have been no assumption changes since GASB 67 was implemented

* : Historical information prior to July 1, 2013 implementation of GASB 67 is not required

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

SCHEDULE III

Required Supplementary Information - Unaudited
Schedule of Employer Contributions to the Retirement Plan

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to		Contributions as a Percentage of Covered Employee Payroll
		Actuarially Determined Contributions	Contribution Deficiency (Excess)	
		(Historical information prior to July 1, 2013 implementation of GASB 67 is not required.)		
2014	\$27,688,031	\$12,500,000	\$15,188,031	42.59%
2015	29,536,050	14,768,025	14,768,025	50.94%
2016	21,998,113	12,100,000	9,898,113	42.61%

The purpose of this table is to present the trend of employer contributions in relation to the actuarially determined contributions. Therefore, the pension deficit bond funding of \$122,303,087 is excluded from the 2015 contributions.

Notes to Schedule:
Valuation date

Actuarial determined contributions are calculated using a July valuation date as of the beginning of the fiscal year for which the contributions are reported.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method

Entry age normal
Level percent with 2% annual increases; closed period
29 years remaining as of July 1, 2015

Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.

Actuarial assumptions:

Investment rate of return

7.00%

The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgement. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes as well as the Plan's target asset allocation.

Inflation rate

3.00%

Projected salary increases

2.50%

Cost of living adjustments

3.00%

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

SCHEDULE IV

Required Supplementary Information - Unaudited
Schedule of Money-Weighted Rate of Return on Plan Investments

	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>June 30, 2015</u>	<u>Year Ended</u> <u>June 30, 2014</u>	<u>Year Ended</u> <u>June 30, 2013</u> *	<u>Year Ended</u> <u>June 30, 2012</u> *
Annual money-weighted rate of return, net of investment expenses	0.94%	(1.76%)	14.44%		

* : Historical information prior to July 1, 2013 implementation of GASB 67 is not required

EMPLOYEES' RETIREMENT PLAN OF THE
TOWN OF HAMDEN, CONNECTICUT

SCHEDULE V

Schedule of Administrative Expenses

	Years ended June 30	
	<u>2016</u>	<u>2015</u>
Legal	\$ 27,441	\$ 36,004
Consultant (actuarial)	46,598	26,870
Benefit processing	17,496	19,258
Audit	13,000	12,500
Office and administrative	6,615	7,913
Accounting services	7,569	6,228
Medical exams	<u>-</u>	<u>500</u>
Total	<u>\$ 118,719</u>	<u>\$ 109,273</u>