

BARNSTABLE COUNTY RETIREMENT ASSOCIATION

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2007

BARNSTABLE COUNTY RETIREMENT ASSOCIATION

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Retirement Board
Barnstable County Retirement Association

We have audited the accompanying financial statements of the Barnstable County Retirement Association (the Association), as of and for the year ended December 31, 2007 as listed in the table of contents. These financial statements are the responsibility of the Association's management. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2007, and the change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2010, on our consideration of the Association'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 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 *Governmental Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (located on pages 3 through 7) and historical pension information (located on pages 17 through 19) 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 principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads 'Sullivan, Rogers & Company, LLC'. The signature is written in a cursive, flowing style.

January 15, 2010

Management's Discussion and Analysis

As management of the Barnstable County Retirement Association (the Association), we offer readers of these financial statements this narrative overview and analysis of the Association's financial activities for the year ended December 31, 2007.

Financial Highlights

The Association's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2007, the funded ratio was 62.6% based on the market value of assets at that date.

Net assets increased by \$60,554,505, or 11.3%, when compared to the prior year's net asset balance. Net assets are the residual of the Association's assets in excess of the Association's liabilities as of the statement date. The Association's assets are held in trust to meet future benefit payments.

Overview of the Financial Statements

The basic financial statements are comprised of a Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, Notes to the Financial Statements and Required Supplementary Information.

The **statement of plan net assets** presents information on the Association's assets and liabilities and the resulting net assets held in trust for pension benefits. This is calculated using the following formula: Assets - Liabilities = Net Assets held in trust for pension benefits. This statement reflects the Association's investments at fair value, as well as cash, receivables and other assets and liabilities. The Statement of Plan Net Assets reports the financial position of the Association at December 31, 2007. Over time, the increase or decrease in net assets serves as a useful indicator of the Association's financial health.

The **statement of changes in plan net assets** presents information showing how the Association's net assets held in trust for pension benefits changed during the year ended December 31, 2007. It reflects contributions by its individual members and participating employers along with deductions for retirement benefits, refunds, withdrawals, and administrative expenses. Investment income during the period is also presented showing income from investing activities.

The **notes to the financial statements** provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

The **required supplementary information** includes this management's discussion and analysis and schedules of funding progress and employer contributions.

Financial Analysis

The following tables present current year and prior year data on the Association's financial statements.

Net Assets

The Association's assets exceeded liabilities by \$594,512,194 at the close of the year and are summarized as follows:

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents.....	\$ 130,718,096	\$ 11,696,681
Investments.....	456,710,837	513,592,928
Receivables, interest and dividends.....	<u>7,158,894</u>	<u>10,026,052</u>
Total assets.....	<u>594,587,827</u>	<u>535,315,661</u>
Liabilities		
Accounts payable.....	75,633	362,254
Securities purchased.....	<u>-</u>	<u>995,718</u>
Total liabilities.....	<u>75,633</u>	<u>1,357,972</u>
Net Assets		
Held in trust for pension benefits.....	<u>\$ 594,512,194</u>	<u>\$ 533,957,689</u>

The Association's total assets at December 31, 2007 were \$594,587,827 and were comprised of cash and cash equivalents, investments, interest and dividends, and receivables. Total assets increased \$59,272,166 or 11.1% from the prior year primarily due to investment gains.

Total liabilities at December 31, 2007 were \$75,633 and represent investment management fees. Total liabilities decreased by \$1,282,339 or 94.4% from the prior year primarily due to payments owed for purchases of investment securities totaling \$995,718 during the previous year.

Changes in Net Assets

The Association's total net assets increased by \$60,554,505 during the current year and are summarized as follows:

	<u>2007</u>	<u>2006</u>
Additions		
<i>Contributions:</i>		
Employer.....	\$ 34,275,302	\$ 32,068,275
Plan members.....	21,306,140	20,294,492
Reimbursements and transfers from other systems.....	2,005,864	1,853,130
<i>Net investment income:</i>		
Net realized and unrealized gains (losses).....	37,830,527	52,357,324
Interest and dividends.....	11,972,876	12,583,237
Less investment expense.....	(2,869,221)	(2,514,871)
Intergovernmental.....	1,123,358	1,207,572
Total additions.....	<u>105,644,846</u>	<u>117,849,159</u>
Deductions		
Retirement benefits and refunds.....	42,629,375	40,638,082
Reimbursements and transfers to other systems.....	1,570,814	2,119,178
Administration.....	890,152	1,032,313
Total deductions.....	<u>45,090,341</u>	<u>43,789,573</u>
Change in plan net assets.....	60,554,505	74,059,586
Net assets at beginning of year.....	<u>533,957,689</u>	<u>459,898,103</u>
Net assets at end of year.....	<u>\$ 594,512,194</u>	<u>\$ 533,957,689</u>

Additions to Plan Net Assets

The amount needed to finance benefits is accumulated through the collection of employer and employees' contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 cost-of-living-adjustments (COLA) and through investment earnings. Contributions and net investment gain for calendar year 2007 resulted in total additions to net assets of \$105,644,846. The Association had a net investment gain of approximately \$46,934,000 in 2007 versus a gain of approximately \$62,426,000 in 2006. The decrease in the net investment gain was due to a decrease in the realized and unrealized loss in the market value of investments of approximately \$14,527,000.

Deductions from Plan Net Assets

The primary deductions of the Association include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the Association. Total deductions from net assets for 2007 were \$45,090,341, which represents an increase of 3.0% over deductions of \$43,789,573 in 2006. The payment of pension benefits increased by approximately \$1,991,000 or 4.9% over the previous year. The increase in these expenses primarily resulted from an increase in benefit payments to newer retirees with higher average compensation.

Requests for Information

This financial report is designed to provide the Board, our membership, taxpayers, investors, and creditors with a general overview of the Association's financial results and to demonstrate the Association's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Barnstable County Retirement Association, 750 Attucks Lane, Hyannis, Massachusetts 02601.

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Basic Financial Statements

STATEMENT OF PLAN NET ASSETS

DECEMBER 31, 2007

ASSETS

Cash and cash equivalents.....	\$ 130,718,096
Investments:	
External investment pool (PRIT capital fund).....	428,350,181
Fixed income.....	23,451,268
Pooled real estate.....	<u>4,909,388</u>
Total investments.....	<u>456,710,837</u>
Interest and dividends.....	<u>5,972</u>
Receivables, net of allowance for uncollectible amounts:	
Employer contributions.....	4,993,161
Member deductions.....	1,538,719
Securities sold.....	606,981
Intergovernmental.....	<u>14,061</u>
Total receivables.....	<u>7,152,922</u>
Total assets.....	<u>594,587,827</u>
LIABILITIES	
Accounts payable.....	<u>75,633</u>
NET ASSETS	
Held in trust for pension benefits.....	<u>\$ 594,512,194</u>

See notes to basic financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2007

ADDITIONS	
Contributions:	
Employer.....	\$ 34,275,302
Plan members.....	21,306,140
Reimbursements and transfers from other systems.....	<u>2,005,864</u>
Total contributions.....	<u>57,587,306</u>
Net investment income:	
Net realized and unrealized gains (losses).....	37,830,527
Interest and dividends.....	<u>11,972,876</u>
Total investment income.....	49,803,403
Less investment expense.....	<u>(2,869,221)</u>
Net investment income.....	<u>46,934,182</u>
Intergovernmental.....	<u>1,123,358</u>
TOTAL ADDITIONS.....	<u>105,644,846</u>
DEDUCTIONS	
Retirement benefits and refunds.....	42,629,375
Reimbursements and transfers to other systems.....	1,570,814
Administration.....	<u>890,152</u>
TOTAL DEDUCTIONS.....	<u>45,090,341</u>
CHANGE IN NET ASSETS.....	60,554,505
NET ASSETS AT BEGINNING OF YEAR.....	<u>533,957,689</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 594,512,194</u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The Barnstable County Retirement Association (the Association) was established to provide retirement benefits to eligible employees of the member units of the County of Barnstable, Massachusetts (County) and their beneficiaries. The Association is governed by a five-member board comprised of the Barnstable County Administrator (ex-officio), two members elected by the Association's participants, one member elected by the member unit Treasurers and one member appointed by the Barnstable County Commissioners.

C. Measurement Focus and Basis of Accounting

The Association's financial statements are presented using the flow of economic resources measurement focus and use the accrual basis of accounting.

D. Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value. Fair value is based on quotations from a national securities exchange except for pooled funds, alternative investments and real estate, for which fair value is determined as follows:

Pooled Funds

The fair value of shares in managed investment pools is based on unit value reported by the funds.

Alternative Investments

Alternative investments are recorded at fair value as determined in good faith by the general partners of the venture capital firms after consideration of pertinent information, including current financial position and operating results, price-earnings multiples and available market prices of similar companies' securities, the nature of securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated.

Real Estate

The fair value of real estate funds is based on independent third-party appraisals. The investment managers of the funds are responsible for the reported value of those investments. However, the structure, risk profile, return potential and marketability of those investments differ from traditional equity and fixed income investments. Determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties to a sales transaction. As a result, the estimated values may differ significantly from the values that would have been used had a ready market for the real estate existed, and the differences could be material.

E. Basis of Investment Transactions

Purchases and sales of investments are recorded on the trade date. Transactions remaining unsettled as of year-end are recorded as payables for securities purchased and as a receivable for securities sold.

F. Revenue Recognition

Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements.

G. Benefits and Refunds

Benefits and refunds are recognized as deductions when incurred.

H. Administrative Expenses

Administrative expenses are financed by investment income.

I. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

NOTE 2 - PLAN DESCRIPTION**A. General**

The Association is a cost-sharing multiple employer public employee retirement system established on January 1, 1937, under Massachusetts General Laws (MGL), Chapter 32, and is regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). The Association is a defined benefit pension plan that covers eligible employees and their beneficiaries of member units of the County.

Membership in the Association is mandatory immediately upon the commencement of employment for all permanent employees working 25 hours or more per week, except for school teachers and certain administrators who participate in the Massachusetts Teachers' Retirement System.

Membership in the Association was as follows at December 31, 2007:

Active members.....	5,420
Inactive members.....	747
Retirees and beneficiaries currently receiving benefits.....	<u>2,413</u>
Total.....	<u><u>8,580</u></u>

B. Significant Plan Provisions and Requirements

Pursuant to MGL, Chapter 32, the Association provides retirement, disability and death benefits to plan members and their beneficiaries up to a maximum of 80% of the average of a member's three highest consecutive years' regular compensation. In addition to compensation, benefits are based upon a member's age and length of creditable service.

Members of the Association become vested after 10 years of creditable service. Normal retirement occurs at age 65. Employees may elect early retirement after 20 years of service or at any time after attaining age 55 with 10 years of eligible service. Plan members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. The amount of benefits to be received depends on several factors, including the member's age, compensation, veteran status, years of service and whether or not the disability is work-related. In addition, certain death benefits exist for beneficiaries of employees who die in active service.

Pursuant to MGL, Chapter 32, Section 3(8)(c), for members leaving employment of eligible member units to work for other Massachusetts governmental units, the Association transfers their accumulated account balances and creditable service to the retirement system of their new employer. Other such retirement systems are in turn required to make comparable transfers to the Association for employees coming to work for eligible member units. Liability for the service transfer is not calculated until the member's actual retirement date.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits and investments made by the Association are governed by Chapter 32 of the MGL. The Association has the ability to invest in equity securities, corporate bonds, real estate and other specified investment in accordance with state laws and regulations.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Association's deposits may not be recovered. The Association's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage. As of December 31, 2007, the Association was not exposed to custodial credit risk.

Investments Summary

The Association's investments at December 31, 2007 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
Money market mutual funds.....	\$ 72,987,517	\$ 72,987,517	\$ -	\$ -	\$ -
Fixed income securities.....	23,451,268	573,580	5,305,961	8,444,976	9,126,751
Total debt securities.....	96,438,785	\$ 73,561,097	\$ 5,305,961	\$ 8,444,976	\$ 9,126,751
<u>Other Investments:</u>					
Pooled real estate investments.....	4,909,388				
External investment pool (PRIT capital).....	428,350,181				
External investment pool (PRIT cash).....	44,950,866				
Total other investments.....	478,210,435				
Total investments.....	\$ 574,649,220				

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Association's policy for interest rate risk of debt securities is the weighted average duration of the fixed income portfolio is expected to remain within a range of 75% to 125% of the representative benchmark.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association does not have a policy for custodial credit risk of investments. As of December 31, 2007, the Association was exposed to custodial credit risk as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Held by Counterparty</u>
Fixed income securities.....	\$ 23,451,268	\$ 23,451,268

Investments - Credit Risk of Debt Securities

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association's policy for custodial credit risk of investments is defined in the applicable custodial agreements. As of December 31, 2007, the Association was exposed to custodial credit risk as follows:

<u>Quality Ratings*</u>	<u>Money Market Mutual Funds</u>	<u>Fixed Income Securities</u>	<u>Total</u>
AAA.....	\$ -	\$ 5,315,532	\$ 5,315,532
AA-.....	-	233,442	233,442
A+.....	-	255,314	255,314
A-.....	-	2,302,416	2,302,416
A.....	-	1,111,549	1,111,549
BBB+.....	-	3,544,732	3,544,732
BBB-.....	-	3,056,578	3,056,578
BBB.....	-	5,903,393	5,903,393
BB+.....	-	894,001	894,001
B-.....	-	339,838	339,838
B.....	-	176,607	176,607
Unrated.....	72,987,517	317,866	73,305,383
Total.....	\$ 72,987,517	\$ 23,451,268	\$ 96,438,785

* Per the rating scale of Standard and Poor's (a national credit rating organization)

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The Association's policy for foreign currency risk is defined in the applicable custodial agreements. As of December 31, 2007, the Association was not exposed to foreign currency risk.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Association's investment in a single issuer. The Association's policy for concentration of credit risk is concentration per equity issuer cannot exceed 5% and concentration per fixed income issuer cannot exceed 10% of the portfolio market value at the time of purchase, with the exception of cash, cash equivalents, U.S. Treasury or Agency securities. Furthermore, managers may not hold more than 5% of the outstanding shares of any single issuer with the exception of U.S. Treasuries or Agencies. For any securities that comprise more than 5% of the benchmark, the portfolio may hold up to 1.5 times the benchmark weight, at market, provided that there has been authorization from the Board to do so. As of December 31, 2007, the Association was not exposed to concentration of credit risk.

NOTE 4 - FUNDING POLICY

Plan members are required to contribute to the Association at rates ranging from 5% to 9% of annual compensation, depending on their employment date. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. These deductions earn interest at a rate determined by PERAC that vest based upon years of service. Member units are required to pay into the Association 100% of the actuarially determined contribution.

Cost-of-living adjustments (COLA) granted between fiscal years 1981 and 1997 are reimbursed by the Commonwealth of Massachusetts. COLA's granted subsequent to June 30, 1997 must be authorized by the Association's Board and are borne by the Association. Authorized COLA's may not exceed 3% of the first \$12,000 of benefits.

NOTE 5 - FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan at January 1, 2007, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/07	\$ 517,396,087	\$ 825,863,068	\$ 308,466,981	62.6%	\$ 226,391,633	136.3%

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2007
Actuarial cost method:	Entry age normal
Amortization method:	Payments increase at 4.50% per year
Remaining amortized period:	1 year from July 1, 2007 for 1992 early retirement incentive, 21 years from July 1, 2007 for 2002 and 2003 early retirement incentives and remaining unfunded liability
Asset valuation method:	5 year smoothing of investment returns greater (less) than expected

Actuarial assumptions:

Investment rate of return:	8.25%
Projected salary increases:	5.00%
Cost of living adjustments:	3.00% of first \$12,000 of retirement income

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents additional multi-year trend information about whether the actuarial value of plan net assets are increasing or decreasing over time relative to the AAL for benefits.

NOTE 6 - LEGALLY REQUIRED RESERVE ACCOUNTS

The balance in the Association's legally required reserves as of December 31, 2007 are as follows:

Description	Amount	Purpose
Pension reserve fund.....	\$ 359,741,432	Amounts appropriated to fund future retirement
Annuity savings fund.....	178,904,783	Active members' contribution balance
Annuity reserve fund.....	48,486,723	Retired members' contribution account
Pension fund.....	7,301,988	Remaining net assets
Military service fund.....	77,268	Members' contribution account while on military leave
Total.....	\$ 594,512,194	

All reserve accounts are funded at levels required by state law.

Required Supplementary Information

The following reflects the Schedule of Funding Progress for the past six actuarial valuations using the entry-age normal actuarial cost method, which is the required method for all retirement systems governed by MGL, Chapter 32.

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/98	\$ 235,247,660	\$ 404,215,695	\$ 168,968,035	58.2%	\$ 121,161,677	139.5%
01/01/00	300,396,700	462,462,500	162,065,800	65.0%	152,293,100	106.4%
01/01/02	362,911,896	553,531,966	190,620,070	65.6%	173,610,557	109.8%
01/01/04	378,317,300	647,655,411	269,338,111	58.4%	190,614,004	141.3%
01/01/06	465,637,984	765,747,723	300,109,739	60.8%	215,474,180	139.3%
01/01/07	517,396,087	825,863,068	308,466,981	62.6%	226,391,633	136.3%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2002	\$ 21,212,200	100
2003	23,987,345	100
2004	27,650,113	100
2005	30,224,666	100
2006	32,038,146	100
2007	34,360,912	100

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2007
Actuarial cost method:	Entry age normal
Amortization method:	Payments increase at 4.50% per year
Remaining amortized period:	1 year from July 1, 2007 for 1992 early retirement incentive, 21 years from July 1, 2007 for 2002 and 2003 early retirement incentives and remaining unfunded liability
Asset valuation method:	5 year smoothing of investment returns greater (less) than expected
<u>Actuarial assumptions:</u>	
Investment rate of return:	8.25%
Projected salary increases:	5.00%
Cost of living adjustments:	3.00% of first \$12,000 of retirement income