

PERAC AUDIT REPORT



Clinton Contributory
Retirement System

JAN. 1, 2006 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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September 18, 2008

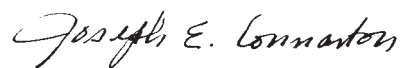
The Public Employee Retirement Administration Commission has completed an examination of the Clinton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There were no significant findings to report.

We commend the Clinton Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2007	2006
Net Assets Available For Benefits:		
Cash	\$3,756,301	\$1,731,962
Pooled Domestic Equity Funds	12,411,086	11,007,326
Pooled International Equity Funds	8,739,076	7,624,291
Pooled Domestic Fixed Income Funds	2,905,580	4,328,491
Pooled Real Estate Funds	1,176,521	2,107,603
Interest Due and Accrued	14,852	7,579
Accounts Receivable	2,336	2,149
Accounts Payable	(41,523)	0
Total	<u>\$28,964,229</u>	<u>\$26,809,400</u>
Fund Balances:		
Annuity Savings Fund	\$8,255,231	\$7,578,539
Annuity Reserve Fund	1,294,648	1,311,591
Pension Fund	1,839,597	1,586,313
Military Service Fund	0	0
Expense Fund	0	0
Pension Reserve Fund	<u>17,574,754</u>	<u>16,332,956</u>
Total	<u>\$28,964,229</u>	<u>\$26,809,400</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2006)	7,021,961	1,445,416	1,264,839	0	0	12,578,734	22,310,950
Receipts	782,407	41,083	1,704,818	0	213,205	3,753,813	6,495,327
Interfund Transfers	(17,705)	17,296	0	0	0	409	0
Disbursements	(208,124)	(192,204)	(1,383,344)	0	(213,205)	0	(1,996,877)
Ending Balance (2006)	7,578,539	1,311,591	1,586,313	0	0	16,332,956	26,809,400
Receipts	853,222	38,337	1,773,448	0	278,390	1,241,786	4,185,183
Interfund Transfers	(140,237)	140,226	0	0	0	11	0
Disbursements	(36,293)	(195,507)	(1,520,164)	0	(278,390)	0	(2,030,354)
Ending Balance (2007)	<u>\$8,255,231</u>	<u>\$1,294,648</u>	<u>\$1,839,597</u>	<u>\$0</u>	<u>\$0</u>	<u>\$17,574,754</u>	<u>\$28,964,229</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2007	2006
Annuity Savings Fund:		
Members Deductions	\$786,073	\$730,535
Transfers from Other Systems	0	7,937
Member Make Up Payments and Re-deposits	22,192	2,384
Member Payments from Rollovers	0	0
Investment Income Credited to Member Accounts	<u>44,956</u>	<u>41,551</u>
Sub Total	<u>853,222</u>	<u>782,407</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>38,337</u>	<u>41,083</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	32,700	35,048
	54,702	59,698
Pension Fund Appropriation	<u>1,686,046</u>	<u>1,610,073</u>
Sub Total	<u>1,773,448</u>	<u>1,704,818</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>278,390</u>	<u>213,205</u>
Sub Total	<u>278,390</u>	<u>213,205</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	0	0
Pension Reserve Appropriation	0	0
Interest Not Refunded	989	336
Miscellaneous Income	0	2,277
Excess Investment Income	<u>1,240,797</u>	<u>3,751,200</u>
Sub Total	<u>1,241,786</u>	<u>3,753,813</u>
Total Receipts	<u>\$4,185,183</u>	<u>\$6,495,327</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2007	2006
Annuity Savings Fund:		
Refunds to Members	\$18,397	\$187,114
Transfers to Other Systems	<u>17,896</u>	<u>21,011</u>
Sub Total	<u>36,293</u>	<u>208,124</u>
Annuity Reserve Fund:		
Annuities Paid	195,507	191,747
Option B Refunds	<u>0</u>	<u>457</u>
Sub Total	<u>195,507</u>	<u>192,204</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	899,529	901,824
Survivorship Payments	65,648	7,322
Ordinary Disability Payments	63,948	49,906
Accidental Disability Payments	275,265	216,765
Accidental Death Payments	90,150	79,285
Section 101 Benefits	9,837	12,927
3 (8) (c) Reimbursements to Other Systems	115,785	115,315
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>1,520,164</u>	<u>1,383,344</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	15,000	15,000
Salaries	33,730	32,804
Travel Expenses	1,760	636
Administrative Expenses	26,176	22,608
Furniture and Equipment	1,068	1,068
Management Fees	167,811	118,901
Consultant Fees	30,500	20,500
Service Contracts	500	0
Fiduciary Insurance	<u>1,845</u>	<u>1,688</u>
Sub Total	<u>278,390</u>	<u>213,205</u>
Total Disbursements	<u>\$2,030,354</u>	<u>\$1,996,877</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2007	2006
Investment Income Received From:		
Cash	\$144,913	\$53,497
Pooled or Mutual Funds	197,496	164,472
Total Investment Income	<u>342,409</u>	<u>217,969</u>
Plus:		
Realized Gains	0	0
Unrealized Gains	4,225,407	5,131,571
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>14,852</u>	<u>7,579</u>
Sub Total	<u>4,240,260</u>	<u>5,139,150</u>
Less:		
Realized Loss	0	0
Unrealized Loss	(2,972,609)	(1,306,043)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(7,579)</u>	<u>(4,037)</u>
Sub Total	<u>(2,980,188)</u>	<u>(1,310,080)</u>
Net Investment Income	<u>1,602,481</u>	<u>4,047,039</u>
Income Required:		
Annuity Savings Fund	44,956	41,551
Annuity Reserve Fund	38,337	41,083
Military Service Fund	0	0
Expense Fund	<u>278,390</u>	<u>213,205</u>
Total Income Required	<u>361,684</u>	<u>295,839</u>
Net Investment Income	<u>1,602,481</u>	<u>4,047,039</u>
Less: Total Income Required	<u>361,684</u>	<u>295,839</u>
Excess Income To The Pension Reserve Fund	<u>\$1,240,797</u>	<u>\$3,751,200</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$3,756,301	12.9%	100%
Pooled Domestic Equity Funds	12,411,086	42.8%	100%
Pooled International Equity Funds	8,739,076	30.1%	100%
Pooled Domestic Fixed Income Funds	2,905,580	10.0%	80%
Pooled Real Estate Funds	1,176,521	4.1%	15%
Grand Total	<u>\$28,988,564</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Clinton Retirement System was 6.04%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Clinton Retirement System averaged 14.46%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Clinton Retirement System was 9.15%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Clinton Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

February 13, 2008

16.08 In accordance with Investment Guideline 99-2, the Clinton Retirement Board is authorized to make the following modifications to its investment portfolio managed by State Street Global Advisors. In order to rebalance its domestic equity portfolio back toward growth from its recent emphasis on value, the Board will be reducing its position in SSgA's Large Cap Value Fund and will begin investing in SSgA's Large Cap Growth Opportunities Fund. This fund is an offshoot of SSgA's Core Opportunities Fund, in which the Board had earlier invested. In order to maintain exposure to the fixed income market in a lower-cost, less risky manner, the Board will begin investing in SSgA's Passive Bond Market Fund. This will replace the Board's recently liquidated position in SSgA's Daily Bond Fund, an actively managed fund with the same benchmark.

December 6, 2005

16.08 In accordance with Investment Guideline 99-2, the Clinton Retirement Board is authorized to make a modest modification to its international equity management mandate with State Street Global Advisors. In order to obtain greater diversification within its international equity holdings, the Board will cease to invest solely in the SSGA International Alpha Common Trust fund. It will, instead, invest in SSGA's All International Allocation Strategy, which invests opportunistically in a number of SSGA international equity funds. Well over half the assets will typically be invested the SSGA International Alpha CTF, and about 87% will continue to be invested in developed markets. Between 10-15% will typically be invested in international small cap and emerging markets. Funds to be used include the International Growth Opportunities CTF, the Daily Active Emerging Markets CTF, the Canadian Alpha CTF, the Rexiter Active Emerging Markets CTF, and the Active International Small Cap CTF.

May 27, 2005

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board is authorized to modify its small cap equity mandate with State Street Global Advisors by transferring its assets from the SSGA Small Cap Growth Opportunities Fund to the SSGA Small Cap Index Plus Fund. The new fund is less dependent on a particular portfolio manager and is also less style-specific. Over time, the enhanced index core approach should give the Board less volatility in its returns from small cap equity.

April 10, 2003

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board is authorized to invest in the SSGA International Alpha Fund. By supplementing its current investment in the SSGA International Growth Opportunities Fund, which has a growth tilt, with the International Alpha Fund, which has a value tilt, the Board will more effectively achieve its mandate for large cap international core equity. Both fund shave an MSCI-EAFE benchmark. The Board has had a satisfactory experience with SSGA in international equity and benefits from the low management fees of SSGA's commingled funds.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 31, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement System is modifying its international growth equity mandate with State Street Global Advisors to allow for securities lending. There is no change in the fund's investment strategy, investment universe, or benchmark. The Board understands and is comfortable with the practice of securities lending and is satisfied with State Street Bank's capabilities in this area.

August 30, 2000

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board may make a modification to its investment agreements with State Street Global Advisors. In transitioning from the EAFE Securities Lending Fund to the International Growth Opportunities Fund, the Board is investing in the same universe of securities, with the same portfolio benchmark, but in an active rather than passive style consistent with its overall asset allocation program. The Board has an existing and successful relationship with SSgA, it is satisfied that SSgA has sufficient ability as an active international equity manager, and certain internal guidelines for the actively-managed fund limit the extent of the portfolio's deviation for the benchmark portfolio structure.

December 4, 1997

20.07(9) Commingled real estate, limited to investments in Cohen & Steers Realty Shares, shall not exceed 15% of the total market value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

October 3, 1997

20.03(1) Equity investments shall not exceed 70% of the portfolio valued at market, including international equities which shall not exceed 15% of the portfolio valued at market. (Expires December 31, 1998) (Subject to CMR 10.03(4))

20.03(2) At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market. (Subject to CMR 20.03(4))

20.03(4) International investments shall not exceed 15% of the total portfolio valued at market. (Expires December 31, 1998)

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

April 23, 1997

18.02(4) Rate of Return – The rate of return objective is to equal or surpass a composite of 40% of the S&P 500 Index, 40% of the Merrill Lynch Government/Corporate Intermediate Index, and 20% of the Dow Jones World Stock Index over a five-year investment cycle.

18.02(5) Risk – The expected level of risk for the equity portion of the portfolio expressed in terms of an annual average beta coefficient with 1.0 equal to market volatility which, for boards partially or wholly exempt from statutory investment restrictions pursuant to 840 CMR 19.05, shall be not less than .29 nor more than 1.15 as determined in accordance with the beta service approved by the Executive Director.

October 19, 1995

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year.

(a) 1% of the value of the fund for the first \$5 million, and

(b) 0.5% of the value of the fund in excess of \$5 million.

July 28, 1994

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market.

20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

January 14, 1991

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase and provided further that domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase and international equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07(9) Commingled real estate funds shall not exceed 10% of the total book value of the portfolio at the time of purchase.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

20.07(10) A separate account may be used for real estate provided that:

- (a) contract holders do not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process; and
- (c) should an investment in a separate account result in the direct ownership of real estate or debt, such shall be permitted only until such time as divestiture is prudent.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Clinton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Clinton Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

November 19, 2002

Membership Eligibility, Creditable Service, and Prior Service

1. A person must work a minimum of an average of 20 hours per week per work year in order to be eligible to become a member of the Clinton Retirement System, except those elected officials who may join the system in accordance with Chapter 32, Section 3(2)(vi).

2. Creditable Service will be based on the average hours worked per week per work year. The following schedule will apply:

20-24 average hours per week	50% creditable service
25-28 average hours per week	60% creditable service
29-34 average hours per week	75% creditable service
35 and over average hours per week	100% creditable service

3. Eligible Prior Service rendered by a current system member who was not a member of the system at the time of the eligible service will be allowed to buy back creditable service on the following schedule:

20-24 average hours per week	50% creditable service
25-28 average hours per week	60% creditable service
29-34 average hours per week	75% creditable service
35 and over average hours per week	100% creditable service

June 9, 1999

Buy- back Military Service

Each eligible member's buy back of military service time pursuant to Chapter 71 of the Acts of 1996 can be made up until the date of retirement.

May 29, 1996

Any person requesting a buyback must have verification records of employment (e.g., tax records, tax returns, salary slips).

April 17, 1996

Permanent part-time employees (as defined by the Town of Clinton Personnel By-Laws) working a minimum of twenty (20) consistent hours per week must become members of the Clinton Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Part-time permanent employees, receiving weekly or monthly salaries or wages for consecutive periods of employment will be given creditable service based on service rendered.

For example, in the case of school personnel, consecutive periods of employment will be defined as returning the following September.

Any part-time employee who becomes a full-time employee shall have his or her part-time service prorated as it relates to a full-time position.

Anyone who was enrolled in FICA during the requested time for buyback is not eligible for buyback.

Those persons requesting buyback for creditable service must prove eligibility through recognized records (example: check stubs).

November 3, 1994

Any person working for the Town of Clinton who is not eligible for the town's retirement program and has an alternative retirement program being paid into will not be considered for creditable service for the town retirement plan.

December 8, 1992

Effective as of October 22, 1992 a person must work a minimum of twenty hours per week to be eligible to join the Clinton Retirement System. Any member currently in the Clinton Retirement System before this date will be grandfathered into the system.

To allow two (2) months creditable service for each year a call firefighter works for the Town of Clinton, not to exceed five (5) years, provided that the call firefighter goes directly from a call firefighter to a permanent firefighter. This ruling takes effect as of October 23, 1992.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Diane L. Magliozzi

Appointed Member: Robert E. Champagne Term Expires: 08/02/09

Elected Member: John M. McNamara Term Expires: 02/01/10

Elected Member: Michael P. Digisi Term Expires: 04/15/11

Appointed Member: Paul B. Cherubini Term Expires: 02/05/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary
Ex-officio Member:)	\$1,000,000 Fidelity
Elected Member:)	Travelers Insurance
Appointed Member:)	MACRS Policy
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2007.

The actuarial liability for active members was	\$23,016,240
The actuarial liability for retired and inactive members was	<u>13,378,293</u>
The total actuarial liability was	36,394,533
System assets as of that date were (actuarial value)	<u>24,128,460</u>
The unfunded actuarial liability was	<u>\$12,266,073</u>
The ratio of system's assets to total actuarial liability was	66.3%
As of that date the total covered employee payroll was	\$8,510,265

The normal cost for employees on that date was 8.27% of payroll
 The normal cost for the employer was 6.74% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by Group and Service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$24,128,460	\$36,394,533	\$12,266,073	66.3%	\$8,510,265	144.1%
1/1/2005	\$19,072,814	\$31,682,543	\$12,609,729	60.2%	\$7,785,612	162.0%
1/1/2003	\$14,730,131	\$26,050,826	\$11,320,695	56.5%	\$7,134,800	158.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	4	1	3	4	2	6	7	2	1	1
Ordinary Disability	0	1	1	0	0	0	1	0	0	1
Accidental Disability	1	0	0	3	0	1	0	1	0	1
Total Retirements	5	2	4	7	2	7	8	3	1	3
Total Retirees, Beneficiaries and Survivors	105	102	101	102	97	100	103	104	100	101
Total Active Members	196	208	230	244	244	242	259	261	276	250
Pension Payments										
Superannuation	\$590,190	\$588,680	\$604,754	\$626,981	\$651,333	\$705,041	\$868,830	\$904,153	\$901,824	\$899,529
Survivor/Beneficiary Payments	23,787	18,300	18,860	23,506	18,808	15,400	11,535	8,256	7,322	65,648
Ordinary Disability	27,226	16,131	21,536	33,585	34,350	35,306	45,675	56,256	49,906	63,948
Accidental Disability	81,757	101,154	90,119	118,729	156,507	181,709	189,954	201,638	216,765	275,265
Other	31,720	91,575	110,337	100,811	130,025	88,553	133,385	146,565	207,527	215,773
Total Payments for Year	<u>\$754,680</u>	<u>\$815,841</u>	<u>\$845,606</u>	<u>\$903,613</u>	<u>\$991,023</u>	<u>\$1,026,008</u>	<u>\$1,249,380</u>	<u>\$1,316,868</u>	<u>\$1,383,344</u>	<u>\$1,520,164</u>

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