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REPORT ON

STATE COMPTROLLER - RETIREMENT DIVISION

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

FOR THE FISCAL YEAR ENDED JUNE 30, 1989

AUDITORS OF PUBLIC ACCOUNTS
STATE OF CONNECTICUT

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106

LEO V. DONOHUE

HENRY J. BECKER JR.

August 23, 1990

AUDITORS' REPORT
STATE COMPTROLLER - RETIREMENT DIVISION
CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

We have made an examination of the financial records of the Connecticut Municipal Employees' Retirement System, maintained by the Retirement Division of the State Comptroller's Office, for the fiscal year ended June 30, 1989. We have also included within the examination the records of the Policemen and Firemen Survivors' Benefit Fund, which is administered by the Retirement Division as an adjunct of the Municipal Employees' Retirement System.

This report thereon, consists of the Comments, Recommendations and Certification which follow, together with the Statements described below:

Special Revenue and Fiduciary Funds:

Statement 1 - Combined Balance Sheet

Schedule 1a - Investments Owned, Together with an Analysis of Investment Transactions

Schedule 1b - Resources to be Provided to Amortize the Unfunded Past Service Costs

Statement 2 - Combined Statement of Revenues, Expenses and Changes in Fund Equity

Statement 3 - Combined Statement of Cash Receipts and Disbursements

Comments

Foreword:

Municipal Employees' Retirement Funds:

The Connecticut Municipal Employees' Retirement System, which is administered by the State Employees' Retirement Commission, operates, generally, under the provisions of Sections 7-425 through 7-450a of the General Statutes.

The Municipal Employees' Retirement System is composed of a Retirement Fund and an Administration Fund. As provided in Section 7-426 the Retirement Fund is divided into two parts, namely, Fund A and Fund B. As of June 30, 1989, Fund A had no active employees enrolled and eight retired employees receiving benefits. These individuals were employees of municipalities which are no longer members of the Municipal Employees' Retirement System.

As of June 30, 1989, 95 municipalities and housing authorities with 8,268 enrolled active employees were participants in Fund B. As of that date, benefits were being paid from Fund B to 2,700 retired employees or to their survivors.

Any municipality may, by resolution passed by its legislative body and subject to referendum, participate in the System. Such resolution shall specify whether acceptance is as to participation in Fund A or Fund B. The effective date of participation shall be the first day of July at least 90 days subsequent to the receipt by the Retirement Commission of a certified copy of the resolution. Participation may also be effected through an agreement between a municipality and an employee bargaining organization. If so, Section 7-474, subsection (f), of the General Statutes, provides that the effective date of participation shall be the first day of the third month following the month in which a certified copy of the agreement is received by the Retirement Commission, or such later date as may be specified in the agreement. Under Section 7-427, eligible employees of housing authorities who were not already enrolled in Fund B were required to become members thereof on July 1, 1972, unless the board of commissioners of the authority voted against such participation.

Employee contribution rates for Fund B are set by Section 7-440 of the General Statutes. Each employee contributes to the Fund 2.25 percent of the portion of salary for which Social Security contributions are to be deducted and five percent of the portion for which such contributions are not to be deducted. Municipal contribution rates are set by the Retirement Commission based on actuarial surveys which, under the provisions of Section 7-443, are required at least every five years.

An actuarial valuation of Fund B made as of January 1, 1983, which provides for cost-of-living increases, was approved by the Retirement Commission at its meeting of May 18, 1984, and took effect July 1, 1984. The actuarial valuation as of July 1, 1987, approved by the Retirement Commission at its October 25, 1988 meeting, revised the contribution rates effective July 1, 1989. The rates used for the period under review and the new rates effective July 1, 1989, are presented in the chart below:

	Effective Date July 1,	
	1984	1989
Policemen and firemen with Social Security	9.29%	17.66%
Others with Social Security	7.07%	6.74%
Policemen and firemen without Social Security	11.66%	16.11%
Others without Social Security	9.67%	8.10%

Section 7-439b of the General Statutes provides for annual cost-of-living increases effective on July first of each year for each retired member or surviving annuitant of a retired member receiving regular benefit payments, beginning with the first July following the date the retired member reached or would have reached the age of 65. Within the limits of a minimum of three percent and a maximum of five percent, the increase is based on the determination of the annual yield of the assets of the fund. When valuing the assets, the actuary is to use an adjusted asset value, such that market values of the assets are adjusted to recognize a portion of realized and unrealized gains and losses each year until fully recognized. The amount of the increase is the excess of the annual yield over a six percent yield, within the limits of a minimum of three percent and a maximum of five percent. Whenever the annual yield is less than nine percent, the past service amortizations of the participating municipalities are adjusted at the next actuarial valuation, to fund the difference between the amount of increase supported by the annual yield and the three percent increase actually granted. The amortization period to fund the liability that results from the cost-of-living increase will be determined by the Retirement Commission, but may not exceed 30 years. Eligibile recipients received a 3.3 percent cost-of-living adjustment on July 1, 1988.

Section 7-441 of the General Statutes, which prescribes the various contributions required of participating municipalities, provides that each municipality must pay to the Retirement Commission an annual proportionate share of the Fund's administrative costs, as determined by the Commission on the basis of the number of members employed by each municipality. During the fiscal year ended June 30, 1989, the participating municipalities were required to contribute $45 per member for such administrative expenses. These moneys are deposited to the Administration Fund which was established to account for all administrative contributions and expenditures.

During the audited period several public acts, amending the Municipal Employees' Retirement System, took effect. They include the following:

1. Public Act 88-141 - extended the time period for the purchase of military service credit to October 1, 1989.

2. Public Act 88-149 - provided any municipal employer who made contributions under Section 7-436b for a member on disability retirement shall be refunded all contributions made for such credit if the purchased credit does not increase the member's disability allowance. This Act also provided for the refund of contributions made by a municipal employer for the purchase of wartime military service credit for an employee who leaves the employment of the municipality and withdraws from the municipal retirement system.

3. Public Act 88-144 - provided that whenever there is any change or error in records that results in a member (or beneficiary) receiving more or less than he otherwise would be entitled to, the retirement commission shall notify the member and correct the record, and as far as practicable, adjust the payments accordingly. In the case of an underpayment, the member has the option to receive said underpayment in a single payment. This Act also allows the retirement commission to waive any overpayment which resulted from an error which the member could not have reasonably been expected to detect and payment of which would result in hardship.

4. Public Act 88-186 - provided that on or after July 1, 1986, coverage is extended to beneficiaries and contingent annuitants up to 90 days before commencement of benefits provided the proper election was made.

Policemen and Firemen Survivors' Benefit Fund:

The Policemen and Firemen Survivors' Benefit Fund operates, generally, under the provisions of Sections 7-323a through 7-323i of the General Statutes. The primary objective of the Fund is to provide benefits for surviving dependents of deceased municipal policemen and firemen. Any municipality may, by ordinance or collective bargaining agreement approved by its legislative body, participate in the plan. Employee contribution rates are fixed by statute at one percent of the employee's compensation. Municipal contributions, however, are made in amounts determined by the Retirement Commission to be necessary to maintain the Fund on a sound actuarial basis.

In lieu of the payment of survivors' benefits from the Fund, the Commission may obtain insurance coverage which provides for such benefits, with the premiums for such coverage being paid from the contributions to the Fund.

Section 7-323c, subsection (d), of the General Statutes prescribes that the Retirement Division assess the municipalities participating in the Fund for their proportionate share of the costs of the administration of the Fund. The State Retirement Commission decreased the administrative fee to $18 per member for the 1988-1989 fiscal year. Revenues collected through this assessment have been deposited to the Administration Fund of the Municipal Employees' Retirement System as its employees have the responsibility of overseeing the operations of the Police and Firemen Survivors' Benefit Fund.

As of June 30, 1989, six municipalities, with 486 active employees, were participating in this plan. They were the towns of Derby, Manchester, Middlefield, Milford, New London, and Seymour. To provide the necessary benefits the Retirement Commission negotiated with a local insurance company for a group annuity contract to meet the plan requirements. During the course of each fiscal year, employee and town contributions, in a total amount equal to the premium on the insurance contract, are deposited monthly to the Survivors' Benefit Fund and forwarded to the insuring company by the Retirement Division in payment of the premium.

Scope of Audit:

This examination of the financial records of the Municipal Employees' Retirement System included a review of the general ledgers and cash ledgers maintained for the various funds and a review of the financial matters contained in the minutes of the meetings of the State Employees' Retirement Commission. In addition, our review of the Municipal Employees' Retirement System included tests of the computation of retirement salaries and a verification of employee and employer contributions received and/or refunded on a test check basis.

Concerning the Policemen and Firemen Survivors' Benefit Fund, we reviewed the actuarial valuation of the Fund prepared by the insuring company. It should be noted that, in addition to those previously mentioned, our review included such other procedures as we deemed necessary during the conduct of our audit.

<u>Connecticut State Employees' Retirement Commission</u>:

The Commission, established under Section 5-155a of the General Statutes, is responsible for the administration of the retirement programs mentioned in this report. In accordance with such Section 5-155a, the membership of this Commission is composed of 15 trustees, including six trustees representing State employees, six trustees representing State management, two trustees who are professional actuaries, and one neutral trustee who serves as chairman. In addition the State Comptroller, ex officio, serves as a nonvoting secretary. All trustees serve for three-year terms, except for the chairman who serves a two-year term. The Governor makes all appointments except for the employee trustees who are selected by employee bargaining agents. The chairman and the actuarial trustee appointments are based on nominations by the other trustees.

Members of the Commission serve without compensation, except that the chairman and two actuarial trustees are compensated at their normal per diem rates plus travel expenses. All other Commission members are entitled to reimbursement for necessary expenses incurred in the performance of their official duties. Members of the Retirement Commission as of June 30, 1989, were:

Peter R. Blum, Chairman
Claude Poulin, Actuarial Trustee
Thomas L. Wills, Actuarial Trustee
Edward M. Archibald, Management Trustee
Lawrence J. Cacciola, Management Trustee
Robert D. Coffey, Management Trustee
Jerome S. Drugonis, Management Trustee
A. Bates Lyons, Management Trustee
Linda Yelmini, Management Trustee

Résumé of Operations:

Municipal Employees' Retirement Funds:

The financial position of the Funds, as of June 30, 1989, is shown on Statement 1 of this report. The cash balances at June 30, 1989, for the Administration Fund and Fund B, were $53,012 and $1,728,169, respectively. Fund A showed a cash overdraft of $551 at June 30, 1989. The deposit balances, as shown on Statement 1 of this report, were reconciled to bank statements and such bank statements were confirmed by the depositories during our audit of the accounts of the State Treasurer.

A portion of the Municipal Employees' Retirement Funds is invested in the State of Connecticut Investment Funds administered by the State Treasurer. As shown on Statement 1, the total cost value of such investments was $371,911,681 at June 30, 1989. Market values of these investments totalled $428,465,846 as shown on Schedule 1a. It should be noted, that in the past, the net realized gains and losses within the Combined Investment Funds applicable to the Retirement Funds were distributed to the participants over a ten-year period based on their respective ownership interests. Effective with the transfer to the master custodian in September 1987, gains or losses are now reflected in the change in the market value of the Mutual Equity and Fixed Income Funds' units in the year of occurrence. A summary of investments owned at June 30, 1989, together with an analysis of transactions concerning, and investment income earned from, such investments for the fiscal year under review is presented on Schedule 1a. Such investment balances, transactions and income were verified as a part of our audit examination of the State Treasurer for the fiscal year ended June 30, 1989.

Investment income receivable of the Funds totalled $3,241,936 as of June 30, 1989. The amounts due from municipalities at June 30, 1989, for employee and municipal contributions on salaries paid on or before June 30, amounted to $2,806,646. The remainder of the receivables were contributions due for prior service, interest, and an interfund transfer.

In accordance with the provision of Section 7-441 of the General Statutes, each participating municipality is liable for an amount determined by the Retirement Commission on sound actuarial principles to be necessary to amortize the unfunded past service costs attributable to employees of the municipality. The unfunded past service liability is that portion of the projected obligation to pay benefits to participating employees, or their survivors, based on their accrued service prior to a certain date which is not expected to be met from the assets accumulated as of that date. The obligation to pay benefits based on service accrued subsequent to that date is assumed to be covered by employee and municipal contributions on salaries made subsequent to that date.

The net total of the resources to be provided to amortize the unfunded past service costs of Fund B at June 30, 1989, was $34,875,629, as shown on Statement 1 and Schedule 1b, a decrease of $28,962,072, from the prior year. This decrease resulted from a July 1, 1987, actuarial valuation of the Fund, and was primarily due to realized investment gains which were higher than those projected in the January 1, 1983, valuation of the Fund. This balance of $34,875,629 represents the net total of the outstanding annual amortization payments scheduled to be made to provide for the unfunded past service costs as of the July 1, 1987, actuarial valuation. For the most part, the payments are scheduled to be made in equal annual installments over a period of 25 years, if positive, or ten years, if negative (credit to be refunded) beginning July 1, 1988 and July 1, 1989, respectively. Sections 7-439b and 7-441 of the General Statutes allow for such payments to be scheduled and/or rescheduled over 20 to 30 years from the occurrence of certain events (e.g., benefit change, cost-of-living adjustment, etc.).

A more recent actuarial valuation was performed as of July 1, 1988. It was determined during that valuation that the unfunded pension benefit obligation was $41,578,593 as of that date. This latter valuation was done for financial reporting purposes only, and was not used as a basis for adjusting scheduled municipal amortization payments.

Liabilities of the Funds totalled $197,945 at June 30, 1989, as shown on Statement 1. They included, in addition to the cash overdraft previously mentioned, reimbursements due to other funds for administrative expenditures, amounts due for actuarial and administrative expenses, a transfer due from Fund A to Fund B, and deferred revenues for certain receivables.

The amounts of equity of active and retired employees in their contributions at June 30, 1989, were $39,974,945 and $1,019,184, respectively, as shown on Statement 1. At June 30, 1989, the unreserved fund balances totalled $335,118,900, and consisted of an Administration Fund balance of $8,549, a Fund A balance of $18,730, and a Fund B balance of $335,091,621. An analysis of the changes in the total Fund Equity of these funds is shown on Statement 2.

The principal sources of revenue for Fund A and Fund B were earnings on investments, municipal and employee contributions and municipal amortization payments. The principal item of expense, retirement salaries paid to retired employees or their survivors, amounted to $14,990,491, an increase of $1,964,706 over retirement salaries paid during the preceding 1987-1988 fiscal year. Of this amount $8,692 was paid from Fund A and $14,981,799 was paid from Fund B. This increase, for the most part, can be attributed to the 3.3 percent cost-of-living increase effective July 1, 1988, and to an increase in the number of retirees and survivors receiving benefits.

The primary source of revenue for the Administration Fund consisted of assessments of $463,029; $454,299 from participants in the Municipal Employees' Retirement System and $8,730 from participants in the Policemen and Firemen Survivors' Benefit Fund. The other sources of revenue were earnings on investments and penalty interest billed for the late payment of administrative assessments.

Administrative expenses during the period under review totalled $466,554, and were comprised of the following:

Personal services	$235,133
Fringe benefits	108,295
Contractual services	115,835
Commodities	2,331
Equipment	4,960
Total	$466,554

Administrative expenses for the 1988-1989 fiscal year, as shown above, increased by $54,456 from the previous fiscal year total of $412,098. This increase is mainly attributable to increases in personal services costs and related fringe benefit expenses resulting from annual step increases and cost-of-living raises. Additionally, a 27th payroll was processed in fiscal year 1988-1989.

Policemen and Firemen Survivors' Benefit Fund:

The Policemen and Firemen Survivors' Benefit Fund functions principally as a pass-through account for premiums received from participating municipalities which are, in turn, remitted to a local insurance company for survivor benefit coverage. Administrative assessments are collected from the participating municipalities and deposited to the Administration Fund of the Municipal Employees' Retirement System as was previously mentioned in this report.

Contributions receivable, as shown on Statement 1, represented a payment due to the insuring company as of June 30, 1989, for which contributions had not yet been received by the fund from participating municipalities.

During the 1988-1989 fiscal year, both cash receipts and disbursements of the Fund totalled $94,746, as shown on Statement 3. The total premium payment due to the insuring company for the year's coverage was $362,796, a decrease of $16,188 from the $378,984 for the 1987-1988 fiscal year. The premiums were based on actuarial valuations done as of the beginning of each fiscal year. The actuarial valuation done as of July 1, 1988, for July 1, 1988, through June 30, 1989, resulted in a municipal contribution rate of 2.55 percent of each municipality's active covered payroll as of July 1, 1988. As previously mentioned in this report, employee contribution rates are fixed by statute at one percent of the employee's compensation.

A significant feature of the group annuity insurance plan currently in force is the accumulation, in a separate reserve account, of assets which are to be used to offset future plan liabilities. Changes in the reserve come from additions for contributions and investment income and from deductions for annuity payments and contract service charges. The actuarial valuation performed as of July 1, 1989, estimated the reserve for future benefit payments to total $9,095,135 as of June 30, 1989.

Surety Bond Coverage:

Surety coverage was provided for employees of the Office of the Comptroller (except the Comptroller) for the period under examination by:

Company - Insurance Company of North America
Amount of Coverage - $2,500,000

Bond # - JO 0816139
Period - May 1, 1987, to May 1, 1989
Type of Bond - Comprehensive Crime Policy for Public Bodies
Type of Coverage - Faithful Performance Blanket

Bond # - JO 0748626
Period - May 1, 1989, to May 1, 1990
Type of Bond - Commercial Crime Policy
Type of Coverage - Public Employees Dishonesty and Faithful Performance of Duty

Surety coverage was provided for State Comptroller, J. Edward Caldwell for the period under examination by:

Company - Insurance Company of America
Amount of Coverage - $25,000

Bond # - JO 0578630
Period - March 1, 1987, to March 1, 1991
Type of Bond - Public Employees Schedule
Type of Coverage - Faithful Performance of Duty

Condition of Records:

Our review of the financial records of the Municipal Employees' Retirement System, as kept by the Retirement Division of the Comptroller's Office, revealed certain areas where improvement is needed. Our comments in the following paragraphs address these matters.

Internal Controls:

In previous reports we have commented on weaknesses in the System's contribution accounting function. Problems in this area began when the bookkeeping machine used for posting the control and subsidiary records of the System which accounted for active employee contributions became totally inoperative early in the 1982-1983 fiscal year. After several months delay the Retirement Division acquired and put into service a replacement machine during May 1983. This replacement machine was not the same model as that used previously and its use required, essentially, the implementation of a new, though similar, contribution accounting system. Use of this machine was intended as a temporary measure until a new automated processing system could be developed and fully implemented.

Balances from the last date the original system had been balanced and reconciled, March 31, 1982, were entered into the replacement machine. In addition, transactions for the quarter ended June 30, 1982, were entered into the machine and the subsidiary and control records partially balanced and reconciled as of that date. At that point it was decided to direct all efforts towards full implementation of the automated contribution accounting system for retirement contributions.

The automated contribution accounting system became fully operational during the 1985-1986 fiscal year. As of June 30, 1989, the data entered into the system had been reconciled and balanced within the system itself, and was being rolled over into the individual data bases on a timely basis. Currently, procedures have been established to reconcile entries into the system to cash and contribution general ledger control accounts on a monthly basis. However, the cumulative transactions have not been reconciled to cash and contribution general ledger control accounts. (See Recommendation 1.)

Our review of payments to the firm providing actuarial services to the Municipal Employees' Retirement System revealed instances where the billings contained charges that lacked sufficient detail (i.e., hourly rate, number of hours worked, and dates of such work) to determine adequately if the proper amount was being charged.

Retirement Division personnel have informed us that efforts have been undertaken to improve the billing detail for these services. We will review this area as part of our next scheduled audit of the Municipal Employees' Retirement System.

Reporting Function:

Since 1979 we have commented on the need for a comprehensive annual report on the financial and actuarial condition of the Municipal Employees' Retirement System (MERS). Currently four published reports contain information on the condition of the Municipal Employees' Retirement System. These include the Annual Report of the State Comptroller, the Annual Report of the State Treasurer, the Annual Report of the Retirement Commission to the Governor, and the State of Connecticut GAAP Annual Report.

The Comptroller's report contains only a balance sheet and cash receipts and disbursements statement, both of which lack footnotes or other narrative which would disclose other pertinent financial, actuarial, or general descriptive information. The Treasurer's report contains a very sketchy retirement system investment report and cash statement. The Retirement Commission report is a brief statistical report of activities. All three of these reports are essentially uninformative and of little use to the legislative or executive branches of government as a basis for evaluating or making decisions regarding the condition, funding, or administration of the Retirement Fund. The value of these reports to system members, municipalities employee unions, taxpayers and other concerned groups is also extremely limited.

The Comptroller completed a gradual conversion to Statewide reporting in accordance with generally accepted accounting principles (GAAP), starting with the fiscal year ended June 30, 1988, with the issuance of the first "Comprehensive Annual Financial Report" (CAFR) for the State of Connecticut. This report is designed to report on all State funds, including those public employee retirement systems (PERS) administered by the Retirement Commission, in accordance with GAAP established by the Governmental Accounting Standards Board (GASB).

In its first official statement, dated July 1984, GASB recognized the following pronouncements as sources of acceptable accounting and reporting principles for public employee retirement systems:

1. National Council on Governmental Accounting - Statement 1 "Governmental Accounting and Financial Reporting Principles."

2. National Council on Governmental Accounting - Statement 6 "Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employees."

3. Financial Accounting Standards Board - Statement 35 "Accounting and Reporting by Defined Benefit Plans."

Pending issuance of a future GASB statement on the subject, the three pronouncements noted above are applicable to aspects of pension accounting and financial reporting other than disclosures in notes to financial statements and required statistical tables. Pension disclosures are covered by GASB Statement No. 5 which was issued during November 1986. This statement, which is effective for fiscal years ended June 30, 1988, and beyond, establishes minimum disclosure standards for all State and local government pension plans.

It should be noted, that the actuaries for the Municipal Employees' Retirement Fund prepare a report on an annual basis, providing the participating municipalities with disclosure information required by Statement 5 of the Governmental Accounting Standards Board, which is needed by the towns for their financial reporting purposes. This report could also be readily adopted for PERS reporting purposes by the Retirement Commission.

In addition to GASB Statement 5, it is planned that a separate statement on pension accounting and reporting will be issued to replace that portion of GASB Statement No. 1 which deals with public employee retirement systems. A time frame for this project, however, has not yet been established.

It should be noted that the GAAP reporting and disclosure requirements for PERS reporting purposes are more stringent than those required for CAFR reporting purposes. So while the publication of a CAFR by the Comptroller results in improved reporting over State pension funds, the requirements of GAAP as they relate to PERS cannot be met by this report alone, nor does this report relieve the Retirement Commission of its own reporting responsibility. The Retirement Commission needs to establish a separate PERS reporting function for the Municipal Employees' Retirement Fund to accommodate the additional GAAP reporting requirements. (See Recommendation 2.)

<u>Policemen and Firemen Survivors' Benefit Fund</u>:

The group annuity contract in effect during the audited period, for the Policemen and Firemen Survivors' Benefit Fund, provides for the insuring company to submit, annually, an actuarial valuation of the contract plan. The ninth valuation under this contract was performed as of July 1, 1988, for use in the plan year July 1, 1988, through June 30, 1989.

In the past the State Retirement Commission has been concerned about the possibility of excessive reserve amounts being accumulated by the insuring company for the payment of future plan benefits. Although no such concern has been expressed by the Commission concerning the valuations performed by the insuring company since the implementation of this plan, consideration should be given to having an independent actuarial firm review the valuation methods and assumptions used by the insuring company, to ensure that they are not resulting in excessive reserve accumulations.

Our review of deposits of amounts received for the Policemen and Firemen Survivors' Benefit Fund revealed receipts which were not deposited in a timely fashion, as required by Section 4-32 of the General Statutes. These deposits represented the premiums which "pass-through" the fund to the insurance company providing the annuity contract. This situation appears to have been the result of an inadvertent decision to accumulate said funds and deposit them as one deposit. A letter to the Governor, and other State officials, dated April 2, 1990, was sent informing them of the late deposit of the above-mentioned funds.

Recommendations

In our previous report, we presented two recommendations concerning the operations of the Municipal Employees' Retirement System. The following is a summary of these recommendations and the actions taken by the Retirement Division.

1. Reconciliation of contribution control and subsidiary records to cash control accounts - Although records are up-to-date, they are not balanced to cash and contribution general ledger control accounts. The recommendation is repeated.

2. Preparation and issuance of a comprehensive annual report - Presently the actuaries for the Municipal Employees' Retirement System prepare for the Retirement Commission on an annual basis, a report providing disclosure information required by Statement 5 of the Governmental Accounting Standards Board. However, no comprehensive annual report on the System is prepared. The recommendation is repeated.

Included in the "Condition of Records" section of this report was the following suggestion to the Retirement Division.

> Consideration should be given to having an independent actuarial firm review the valuation methods and assumptions of the insuring company for the Policemen and Firemen Survivors' Benefit Fund to ensure that excessive reserve accumulations are not being built up.

There are two recommendations resulting from this examination, both of which have been repeated from our prior audit report.

1. The municipal and employee contribution control and subsidiary records of the Municipal Employees' Retirement Fund should be reconciled to cash controls.

> Although entry of transaction data into the automated contribution accounting system is current, the cumulative data has not been balanced to cash and contribution general ledger control accounts.

2. The financial statements of the Municipal Employees' Retirement System should be prepared in accordance with reporting and disclosure standards

authorized by the Governmental Accounting Standards Board and such information should be communicated to interested parties through the issuance of an annual report.

> While not legally required to follow specific reporting or disclosure standards, the Retirement Commission has an inherent responsibility to disclose adequately pertinent information regarding its administration of the Municipal Employees' Retirement System. At a minimum, the Retirement Commission should comply with the generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB) for all Public Employee Retirement Systems (PERS). As part of this effort, a PERS reporting function completely separate from the Comptroller's Statewide GAAP reporting function should be established. Such a reporting function could be consolidated with a corresponding PERS reporting function for the State Employees' Retirement System.

Independent Auditors' Certification

Financial Statements:

We have audited the accompanying financial statements prepared from the records of the State Comptroller and the State Treasurer for the fiscal year ended June 30, 1989. These financial records are the responsibility of the State Comptroller's Retirement Division management. Our responsibility is to express an opinion on the financial statements prepared from such records based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards for financial and compliance audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note G to Statement 1 of this report, the accompanying financial statements are intended to present the financial position and the results of operations and cash transactions of the Special Revenue and Fiduciary fund types of only that portion of the funds of the State of Connecticut that is attributable to the transactions of the Municipal Employees' Retirement System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Revenue and Fiduciary funds of the Municipal Employees' Retirement System as of June 30, 1989, and the results of operations and cash transactions of such funds for the year ended on that date, in conformity with generally accepted accounting principles.

Compliance with Laws and Regulations:

Compliance with laws, regulations, and contracts applicable to the Municipal Employees' Retirement System, is the responsibility of the management of the Retirement Division. As part of obtaining reasonable assurance about whether the financial statements referred to above are free of material misstatements, we performed tests of the Division's compliance with certain provision of the laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the Retirement Division complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the agency had not complied, in all material respects, with those provisions. We did, however, note certain immaterial instances of noncompliance which we have disclosed in the "Condition of Records" and "Recommendations" sections of this report.

Internal Control Structure:

In planning and performing our audit of the financial records of the Municipal Employees' Retirement System as referred to above, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements prepared therefrom and not to provide assurance on the internal control structure.

The management of the Retirement Division is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report we have classified the Municipal Employees' Retirement System's significant internal control policies and procedures in the categories of payroll, contribution accounting, cash receipts, billings and collections, and reporting systems. Our consideration of the internal control structure included all of the control categories listed above. The purpose of our consideration of the internal control structure was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements prepared thereunder.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accounts. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In the area of contribution accounting a weakness exists in that cumulative transactions have not been reconciled to cash and contribution general ledger control accounts.

A material weakness is a reportable condition in which the design or operations of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the inability to reconcile cumulative transactions to cash and contribution general ledger control accounts, as noted in the "Condition of Records" and "Recommendations" sections of this report, to be a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported on in the "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. This restriction is not intended to limit distribution of this report, which is a public document.

Conclusion

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the Retirement Division, especially those employees of the Municipal Employees' Retirement Section, during the course of our examination.

Gary Krisdenski
For the Auditors of Public Accounts

Approved:

Henry J. Becker, Jr.

Leo V. Donohue

Auditors of Public Accounts

kjk/0250A

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED BALANCE SHEET
AS OF JUNE 30, 1989

Statement 1
Sheet 1

		Special Revenue Fund	Fiduciary Funds		
			Pension Trust		Agency
	Total	Retirement Administration (1123)	Retirement Fund A (7047)	Retirement Fund B (7048)	Policemen and Firemen Survivors' Benefit (7049)
Assests and Resources	$	$	$	$	$
Cash in custody of State Treasurer	781,181	53,012		728,169	
Investments at cost, per Schedule 1a	371,911,681	25,000	19,215	371,867,466	
Investment income receivable, per Schedule 1a	3,241,936	203	171	3,241,562	
Employee contributions receivable	1,199,113			836,317	362,796
Municipal contributions receivable	1,970,329			1,970,329	
Other receivables	127,623			127,623	
Due from Retirement Fund A	105			105	
Resources to be provided to amortize unfunded past service costs, per Schedule 1b	34,875,629			34,875,629	
Total Assets and Resources	$414,107,597	$78,215	$19,386	$ 413,647,200	$362,796
Liabilities and Fund Equity					
Liabilities:					
Cash overdraft	551		551		
Due to General Fund	27,496	27,496			
Due to Retirement Fund B	105		105		
Due to other funds	8,560	8,560			
Accounts payable	396,406	33,610			362,796
Deferred revenue - receivables	127,623			127,623	
Total Liabilities	560,741	69,666	656	127,623	362,796
Fund Equity:					
Reserved for Member Contributions:					
Active members	39,974,945			39,974,945	
Retired members	1,019,184			1,019,184	
Total Member Contributions Reserved	40,994,129	-	-	40,994,129	-
Reserved for interest creditable to active members' accounts	2,114,285			2,114,285	
Reserved for interest creditable to retired members' accounts	443,913			443,913	
Reserved for resources to be provided to amortize unfunded past service costs	34,875,629			34,875,629	
Unreserved balances	335,118,900	8,549	18,730	335,091,621	
Total Fund Equity	413,546,856	8,549	18,730	413,519,577	-
Total Liabilities and Fund Equity	$414,107,597	$78,215	$19,386	$ 413,647,200	$362,796

Notes:

A. Plan Description

1. The Municipal Employees' Retirement Fund (MERF) is the administrator of a cost sharing multiple employer public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. MERF is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund.

2. Any local government authority in the State of Connecticut, including towns, cities, boroughs, regional school districts, housing authorities, or other special districts, may elect to participate for one or more of its departments, including elective officers; only teachers who are covered under the Connecticut State Teachers' Retirement System are ineligible. As of July 1, 1988, there were 142 participating local government units (counting departments of municipalities which joined or report separately as separate units).

At July 1, 1988, the MERF membership consisted of:

	Retirees and Beneficiaries	Terminated Vested	Active - Vested	Active - Non-Vested
Police and Fire				
a. Without Social Security	127	0	167	113
b. With Social Security	55	1	113	125
General				
a. Without Social Security	1,437	2	1,118	1,917
b. With Social Security	834	2	1,256	2,386
Withdrawn Municipalities	15	0	N/A	N/A
Total Members	2,468	5	2,654	4,541

3. Plan provisions are set by statute of the State of Connecticut. MERF provides retirement benefits, as well as death and disability benefits. Annual cost of living increases between three percent and five percent are paid to disabled members and nondisabled retired members over age 65. All benefits vest after ten years of continuous service. Members who retire after age 55 with ten years of service or after 25 years of service, irrespective of age, are entitled to an annual retirement benefit, payable monthly for life, in an amount for each year of service equal to:

   - If not covered by Social Security: two percent of the average of earnings for the three highest paid years of service.

   - If covered by Social Security: one and one-sixth percent of the average of earnings not in excess of the taxable wage base for the ten highest paid years, plus two percent of the average of earnings for the three highest paid years of service which is in excess of the average of earnings not in excess of the taxable wage base for the ten highest paid years.

4. Covered employees are required by State statute to contribute two and one-fourth percent of earnings upon which Social Security tax is paid plus five percent of earnings on which no Social Security tax is paid. Each participating municipality is required to contribute the amounts necessary to finance the remaining costs of the plan.

5. The Policemen and Firemen Survivors' Benefit Fund, which is administered as an adjunct of the Municipal Employees' Retirement System, had six participating municipalities as of June 30, 1989, with 476 and 250 active and retired/annuitant members, respectively. In lieu of providing benefit payments from the Policemen and Firemen Survivors' Benefit Fund, the State Retirement Commission, in accordance with Section 7-323 of the General Statutes, negotiated with a local insurance company for a group annuity contract to provide the survivor benefit coverage. An actuarial valuation of the insurance company plan performed as of July 1, 1989, estimated the reserve for future benefit payments to total $9,095,135 as of June 30, 1989.

Notes: (continued)

B. Summary of Significant Accounting Policies and Plan Asset Matters

1. Basis of Accounting

MERF financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employees services are performed.

2. Method Used to Value Investments

Retirement trust funds can invest in the following investment pools maintained by the State of Connecticut.

Mutual Fixed Income Fund - Investments consist principally of bonds and notes.

Mutual Equity Fund - Investments consist principally of common stocks.

Mutual Mortgage Fund - Investments consist principally of residential real estate mortgeges and loans.

Mutual Contract Fund - Investments consist principally of Insurance Company Guaranteed Investment Contracts.

Real Estate Fund - Investments consist principally of interest in commingled equity real estate funds.

Yankee Mac Fund - Investments consist principally of residential mortgage backed securities.

Commercial Mortgage Fund - Investments consist principally of interest in commercial mortgages.

Venture Capital Fund - Investments consist principally of interests in venture capital partnerships which have common stock interests in emerging businesses.

International Stock Fund - Investments consist principally of international equity securities.

Cash Reserve Fund

Investments in the pool funds are valued at cost (see Schedule 1a). Market values of the investment pools are determined by Master Custodian based on the performance of the underlying securities (see Schedule 1a). Investment income is recognized as earned. Gains and losses on sales and redemptions of investments are recognized on the transaction data. There are no investments in any organizations that represent five percent or more of net assets available for benefits.

Notes: (continued)

C. Funding Status and Progress

1. The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the plan, discussed in Note D below.

2. The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1988.

3. Significant actuarial assumptions used include:

   a. Rate of return on the investment of present and future assets of seven percent per year compounded annually.

   b. Projected salary increases of four and one-half percent per year compounded annually, attributable to inflation.

   c. Additional projected salary increases of one percent per year, attributable to seniority/merit.

   d. Post-retirement benefit increases of three percent per year compounded annually.

4. Pension Benefit Obligation, July 1, 1988:

	$
Retirees and Beneficiaries Currently Receiving Benefits	142,687,000
Terminated Employees not yet Receiving Benefits	71,000
Current Employees:	
Accumulated Employee Contributions Including Allocated Investment Income	36,734,000
Employer-Financed Vested	173,479,000
Employer-Financed Non-Vested	34,709,000
Subtotal	244,922,000
Total Pension Benefit Obligation	387,680,000
5. Net Assets Available for Benefits at Cost (Market Value $369,062,582)	346,101,407
6. Unfunded Pension Benefit Obligation	$ 41,578,593

7. There were no changes during this year of (a) actuarial assumptions or (b) benefit provisions.

Notes: (continued)

D. Contributions Required and Contributions Made

1. Each covered municipality is required by State statute to pay an actuarially determined percentage of covered payroll to provide for benefits based on current service. This percentage varies by police and fire versus general city employees, and, within those two groups, with versus without Social Security. The statute also requires each municipality to pay an annual amount for benefits based on service prior to the unit's date of participation. This amount is a level dollar amortization (including interest and principal) over 30 years from the later of January 1, 1985, or the July 1st following the unit's date of participation if the amount is positive, and ten years from January 1, 1988, if negative.

2. a. The contributions are actuarially determined using the projected unit credit cost method.

   b. The actuarial assumptions are the same as used to compute the pension benefit obligation discussed in Note C above.

   c. The contributions for 1988-1989 are based on the January 1, 1983, and July 1, 1987, actuarial valuations. Contributions totalling $26,376,780 ($19,826,740 employer and $6,550,040 employee) were made for the plan year ended June 30, 1989, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed as of January 1, 1983, and July 1, 1987. These contributions consisted of: (a) $16,090,038 normal cost and (b) $3,736,702 amortization of the unfunded actuarial accrued liability. The employer and employee contributions represent nine and four-tenths percent and four and one-half percent of covered payroll as of July 1, 1988, respectively.

   d. The employer contribution dropped considerably this year due to July 1, 1988, refunds to certain menicipal units for accumulated actuarial gains developed in the July 1, 1987, actuarial valuation. All units received their proportionate share of the actuarial gains, but in some units the changes in plan benefits (interest on employee contributions) and changes in actuarial assumptions created liabilities in excess of the gains. The increases in contribution required by the changes will take place on July 1, 1989. Where refunds were appropriate, they were made effective July 1, 1988, and reflected in the contributions covered by this report.

E. Policemen and Firemen Survivors' Benefit Fund

In lieu of providing benefit payments from the Policemen and Firemen Survivors' Benefit Fund, the State Retirement Commission, in accordance with Section 7-323f of the General Statutes, negotiated with a local insurance company for a group annuity contract to provide the survivor benefit coverage. An actuarial valuation of the insurance company plan performed as of July 1, 1989, estimated the reserve for future benefit payments to total $9,095,135 as of June 30, 1989.

F. Ten Year Historical Trend Information

Ten year historical trend information designed to provide information about MERF's progress made in accumulating sufficient assets to pay benefits when due is presented in the supplement immediately following these notes to financial statements.

G. The accompanying financial statements are intended to present the financial position and the results of operations and cash transactions of the Special Revenue and Fiduciary fund types of only that portion of the funds of the State of Connecticut that is attributable to the transactions of the Municipal Employees' Retirement System.

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED BALANCE SHEET
AS OF JUNE 30, 1989

Statement 1
Sheet 6

Required Supplementary Information**:**

ANALYSIS OF FUNDING PROGRESS
(in Millions of Dollars)

Fiscal Year	(1) Net Assets Available for Benefits *	(2) Pension Benefit Obligation	(3) Percent Funded (1)/(2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a percent of Covered Payroll (4)/(5)
1977-1978	$ 93	$ 95	98%	$ 2	$ 45	4%
1982-1983	159	178	89	19	81	23
1987-1988	279	346	81	67	144	47
1988-1989	348	388	90	40	160	25

Actuarial valuations were performed as of January 1, 1978, January 1, 1983, July 1, 1987 and July 1, 1988. The standardized measure of the pension obligation is not available for the intervening years.

*Asset values are reported at cost in the financial statements and thus, in accordance with GASB No. 5, are reported here at cost. Note that the July 1, 1988, market value of assets was $367,758,000. If this market value is used, the MERF system is 95 percent funded.

REVENUES BY SOURCE AND EXPENSES BY TYPE
(in Millions of Dollars)

	Revenues by Source						Expenses by Type		
Fiscal Year	Employee Contribution	Employer Contributions*	Investment Income	Realized Gains**	Other***	Total	Benefits	Refunds	Total
1979-1980	$ 2.3	$ 6.3	$ 8.8	$ (.9)	$0.1	$16.6	$ 4.8	$ .4	$ 5.2
1980-1981	2.7	8.0	10.2	(.9)	0	20.0	5.5	.3	5.8
1981-1982	3.0	8.1	12.8	(.8)	0	23.1	6.1	.5	6.8
1982-1983	3.1	8.9	14.2	(1.7)	0.3	24.8	8.9	.4	7.3
1983-1984	3.8	10.1	15.7	.1	5.2	34.9	7.6	.5	8.1
1984-1985	3.9	10.0	17.6	.4	0	31.9	8.6	.5	9.1
1985-1986	4.5	11.5	18.0	2.0	0	36.0	9.5	.7	10.2
1986-1987	7.3	13.3	17.9	4.2	0	42.7	11.6	.7	12.3
1987-1988	6.1	18.7	21.7	38.9	0	83.4	13.0	.8	13.8
1988-1989	7.8	19.5	20.2	0	0	47.3	15.0	1.1	16.1

* Contributions were made in accordance with actuarially determined requirements.
** Prior to 1987-1988, realized gains (losses) were amortized over ten years. In 1987-1988, all previously unrecognized realized gains (losses) were recognized.
*** Transfers from Fund A.
**** The required supplementary information shown above was independently compiled by the actuarial firm of Hooker and Holcombe, Inc.

STATE CONTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
INVESTMENTS OWNED, TOGETHER WITH
AN ANALYSIS OF INVESTMENT TRANSACTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

Schedule 1a

	Cost Value June 30, 1988 (Per Previous Report)	Prior Period Adjustments	Cost of Investments Acquired	Cost of Investments Disposed of	Cost Value June 30, 1989 (Per Statement 1)	Investment Income for Fiscal Year	Investment Income Receivable June 30, 1989 (Per Statement 1)	Gains and Losses from Sales of Securities	Number of Units of Ownership June 30, 1989	Market Value June 30, 1989
Retirement Administration Fund (1123):	$	$	$	$	$	$	$	$		$
State of Connecticut										
Combined Investment Funds:										
Short Term Investment Fund	65,000			40,000	25,000	5,757	203		25,000	25,000
Retirement Fund A (7047):										
State of Connecticut										
Combined Investment Funds:										
Short Term Investment Fund	28,321			9,106	19,215	2,380	171		19,215	19.215
Retirement Fund B (7048):										
State of Connecticut										
Combined Investment Funds:										
Cash Reserve Fund	13,381,472		33,043,904	26,682,764	19,742,612	1,329,435	155,542		-	19,742,612
Mutual Fixed Income Fund	122,208,050				122,208,050	10,522,577	840,021		1,364,905	127,917,916
Mutual Equity Fund	137,267,207		1,300,000		138,567,207	8,090,900	686,762		832,584	178,616,761
Mutual Contract Fund	1,480,031			1,123,500	356,531	342,681	985,391		3,723	390,339
Yankee Mac Fund	2,006,667	645,003		184,200	2,467,470			(26,906)	16,551	2,283,234
Real Estate Fund	50,475,027		6,200,000	2,373,684	54,301,343	1,722,329	567,330	264,300	601,320	62.476.825
International Stock Fund	6,300,000		19,700,000		26,000,000				227,903	28,287,310
Commercial Mortgage Fund	6.262,000				6,262,000				61.300	6,947,225
Mutual Mortgage Fund	57,653				57,653	7,168	5,708		500	67.666
Venture Capital Fund	1,201,600		700,000		1,901,600				20,375	1,691,743
Totals	340,622,707	645,003	60,943,904	30,344,228	371,867,466	20,015,098	3,241,562	235,394		428,421,631
Grand Totals	$340,716,028	$645,003	$60,943,904	$30,393,334	$371,911,681	$20,023,238	$3,241,936	$235,394		$428,465,846

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
RESOURCES TO BE PROVIDED TO AMORTIZE
THE UNFUNDED PAST SERVICE COSTS
AS OF JUNE 30, 1989

Schedule 1b
Sheet 1

Municipality	Outstanding Annual Payments Scheduled June 30, 1989
Retirement Fund B:	$
Andover	(24,453)
Ansonia Housing Authority	(10,098)
Branford	(54,125)
Bridgeport	(17,209,998)
Bridgeport Housing Authority	(207,765)
Bristol Housing Authority	(36,783)
Canterbury	60,523
Clinton	923,261
Connecticut Housing Authority	49,059
Cromwell Police	1,049,031
Danbury Housing Authority	(54,297)
Derby	1,589,975
Derby Housing Authority	(320)
East Hartford Housing Authority	184,125
East Haven	1,435,798
Easton	919,650
East Shore Health Department	(8,586)
Ellington	8,646
Enfield Housing Authority	(18,810)
Greenwich Housing Authority	(41,211)
Griswold	(38,403)
Groton Housing Authority	(1,008)
Hartford	23,813,730
Hartford Housing Authority	(678,285)
Jewett City	263,769
Lebanon	346,330
Lower Naugatuck Valley Health District	(37,692)
Manchester	4,430,825
Manchester Housing Authority	(10,638)
Mansfield	(132,462)
Mattabassett District	(254,412)
Meriden Housing Authority	(39,132)
Middlefield	308,308
Middletown Housing Authority	(74,916)
Milford Housing Authority	(54,369)
Monroe	2,542,525
Montville	932,825
Naugatuck Housing Authority	(37,782)
New Britain	(3,447,783)
New Britain Housing Authority	(151,200)

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
RESOURCES TO BE PROVIDED TO AMORTIZE
THE UNFUNDED PAST SERVICE COSTS
AS OF JUNE 30, 1989

Schedule 1b
Sheet 2

Municipality	Outstanding Annual Payments Scheduled June 30, 1989
Retirement Fund B: (continued)	$
New Fairfield	730,604
New London Housing Authority	(64,008)
Norwalk Housing Authority	(71,253)
Norwalk 1st Taxing District	(91,854)
Norwalk 2nd Taxing District	(239,841)
Norwich City Housing Authority	48,400
Norwich Town Housing Authority	50,125
Plymouth	1,194,800
Portland Housing Authority	(3,537)
Putnam	759,550
Putnam Housing Authority	(16,371)
Quinnipiac Valley Health District	(65,835)
Redding	705,961
Regional School District #4	650,753
Rockville	(19,233)
Seymour	80,489
Seymour Housing Authority	425
Shelton	2,278,675
Shelton Housing Authority	(1,701)
Southeastern Connecticut Regional Planning	(79,344)
Southeastern Connecticut Water Authority	(16,074)
Southington	284,674
South Norwalk Electric Works	(386,568)
Stafford Springs	168,725
Stamford Housing Authority	(151,128)
Stonington	1,569,100
Stratford Housing Authority	174,575
Thompson	53,725
Torrington Housing Authority	(48,591)
Wallingford Housing Authority	11,450
Watertown	(164,871)
West Hartford Housing Authority	3,325
West Haven Housing Authority	(22,959)
Weston	4,373,996
Westport/Weston Health District	(42,570)
Wethersfield Housing Authority	9,250
Willimantic Housing Authority	103,025
Winchester	1,420,075
Winchester Housing Authority	275

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
RESOURCES TO BE PROVIDED TO AMORTIZE
THE UNFUNDED PAST SERVICE COSTS
AS OF JUNE 30, 1989

Schedule 1b
Sheet 3

Municipality	Outstanding Annual Payments Scheduled June 30, 1989
Retirement Fund B: (continued)	$
Windsor	2,991,775
Windsor Locks	1,109.134
Windsor Locks Housing Authority	(343)
Woodbridge	802,792
Woodstock	552.180
Obligations of Municipalities to Retirement Fund B as of June 30. 1989, per Statement 1	$ 34,875.629

Note:
1. The outstanding balance of $34.875,629 as of June 30, 1989, was calculated as follows:

	$
Balance, July 1, 1988, per prior report	63.837.701
Actuarial and other adjustments (net)	(25,193.822)
Payments applied	(8.009.836)
Credits refunded	4.241.586
Balance, June 30. 1989, per above	$ 34.875.629

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

Statement 2

	Total	Special Revenue Fund Retirement Administration Fund (1123)	Fiduciary Funds Pension Trust Retirement Fund A (7047)	Fiduciary Funds Pension Trust Retirement Fund B (7048)
Revenues:	$	$	$	$
Investment income, per Schedule 1a	20,023,236	5,757	2,389	20,015,090
Net Gain, from Sales of Securities, per Schedule 1a	235,394			235,394
Assessments for administrative and actuarial expenses (net of refunds):				
Municipal Employees' Retirement Fund	454,299	454,299		
Policemen and Firemen Survivors' Benefit Fund	8,730	8,730		
Contributions from municipalities (net of refunds)	16,090,038			16,090,038
Amortization payments from municipalities (net of refunds)	3,736,702			3,736,702
Interest on prior service, military service, and late payments (net of refunds)	345,432			345,432
Interest earned on cash deposit	11,274			11,274
Member contributions	6,550,040			6,550,040
Interest on Administrative Expense	255	255		
Total Revenues	47,455,400	469,041	2,389	46,983,970
Expenses:				
Retirement salaries, net of reimbursements	14,990,491		8,692	14,981,799
Administrative expenses	466,554	466,554		
Actuarial expenses	53,150	53,150		
Interest expense	116,156			116,156
Other expenses	6,838			6,838
Total Expenses	15,633,189	519,704	8,692	15,104,793
Excess (Deficiency) of Revenues over Expenses	31,822,211	(50,663)	(6,303)	31,879,177
Other Operating Factors:				
Interfund transfers	-		(2,387)	2,387
Municipal amortization adjustments and payments applied (net)	(28,962,072)			(28,962,072)
Prior year adjustments	660,984		7	660,977
Net Changes Resulting from Operations of 1988-1989	3,521,123	(50,663)	(8,683)	3,580,469
Fund Equity, June 30, 1988, per prior report	410,025,733	59,212	27,413	409,939,108
Fund Equity, June 30, 1989, per Statement 1	$413,546,856	$ 8,549	$18,730	$413,519,577

Note 1: See Note G, Statement 1.

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

Statement 3
Sheet 1

		Special Revenue Fund	Fiduciary Funds		
			Pension Trust		Agency
	Total	Retirement Administration (1123)	Retirement Fund A (7047)	Retirement Fund B (7048)	Policemen and Firemen Survivors' Benefit (7049)
Cash in custody of State Treasurer, June 30, 1988, per previous report	$ 1,071,200	$ 46,902	$ (205)	$ 1,024,503	$ -
Receipts:					
Cost of investments disposed of, per Schedule 1a	30,393,334	40,000	9,106	30,344,228	
Investment income received	20,274,390	5,940	2,387	20,266,063	
Interest earned on cash deposit	11,274			11,274	
Assessment for administrative and actuarial services	466,184	466,184			
Contributions from employees	7,542,729			7,542,729	
Contributions from municipalities	15,863,423			15,768,677	94,746
Amortization payments from municipalities	8,009,836			8,009,836	
Interest on purchase of prior service and late payments	345,805			345,805	
Reimbursement of retirement salaries	5,869			5,869	
Transfer from other funds	1,771,230		368	1,770,862	
Total Receipts	84,684,074	512,124	11,861	84,065,343	94,746
Total	85,755,274	559,026	11,656	85,089,846	94,746
Disbursements:					
Cost of Investments Acquired, per Schedule 1a	60,943,904			60,943,904	
Add: Prior Period Adjustment, per Schedule 1a	645,083			645,083	
Total Disbursements for Investments Acquired	61,588,987	-	-	61,588,987	-
Payments for administrative expenses	450,390	450,390			
Payments for actuarial services	55,624	55,624			
Retirement salaries	16,154,813		9,458	16,145,355	
Transfer to other funds	1,110,247		2,749	1,107,498	
Employee contributions refunded	1,140,427			1,140,427	
Municipal contributions refunded	8,619			8,619	
Refund of interest payable on active members' contributions	115,449			115,449	
Refunds from equity	6,480			6,480	
Other refunds	7,276			7,276	
Amortization payments refunded to municipalities	4,241,586			4,241,586	
Premiums paid to insurance company	94,746				94,746
Total Disbursements	84,974,644	506,014	12,207	84,361,677	94,746
Cash in Custody of State Treasurer, June 30, 1989, per Statement 1	$ 780,630	$ 53,012	$ (551)	$ 728,169	$ -0-

Notes:

1. See Note G, Statement 1.

2. The payments required to amortize the unfunded past service costs were calculated based on the actuarial assumptions adopted for the valuation of Retirement Fund B as of July 1, 1987. This valuation was performed using the projected unit credit actuarial cost method for allocation of projected benefits. The results of a July 1, 1987, actuarial valuation are reflected, for the most part, in the municipalities' contributions at July 1, 1988. However, adjustments for certain municipalities were not scheduled to go into effect until July 1, 1989. These latter adjustments, however, are reflected in the June 30, 1989, balance above as it was not practical for us to adjust for them. As of July 1, 1988, the unfunded pension benefit obligation was recalculated using updated financial information. As a result, the unfunded pension benefit obligation was determined to be $41,578,593 as of July 1, 1988. This compares to an unfunded pension benefit obligation of $67,323,000 as of July 1, 1987. This reduction in the unfunded pension benefit obligation was primarily the result of a change in the treatment of realized gains and losses from the Mutual Equity and Mutual Fixed Income Funds during the 1987-1988 fiscal year, whereby gains and losses were recognized on the basis of changes in the market value of investment fund units, rather than amortizing them over ten years to pension fund participants which had been the practice in prior years. A total remaining net unamortized gain of some $38,000,000 under the former practice was recognized within Retirement Fund B as of September 1, 1987.