

ACCOUNTING MANUAL

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LEDGER ACCOUNTS

The Ledger Account Numbers used in this manual coincide with the Ledger Numbers used by the Department of Revenue's municipal accounting system.

FUNDS

	ACCOUNT NAME	BALANCE
3293	Annuity Savings Fund - Control Account	Credit
3294	Annuity Reserve Fund - Control Account	Credit
3295	Military Service Fund - Control Account	Credit
3296	Pension Fund - Control Account	Credit
3297	Pension Reserve Fund - Control Account	Credit
3298	Expense Fund - Control Account	Credit

RECEIVABLES AND PAYABLES

	ACCOUNT NAME	BALANCE
1350	Prepaid Expenses	Debit
1398	Accounts Receivable	Debit
1550	Interest Due and Accrued	Debit
2020	Accounts Payable	Credit

FIXED ASSET ACCOUNTS

	ACCOUNT NAME	BALANCE
1910	Land	Debit
1920	Buildings	Debit
1929	Accumulated Depreciation - Buildings	Credit

ASSETS

	ACCOUNT NAME	BALANCE
1040	Cash* (Bank Name and Account Number)	Debit
1100	Individually Owned Short Term Investments	Debit
1180	Fixed Income Securities	Debit
1170	Equities	Debit
1101	Pooled Short Term Funds	Debit
1172	Pooled Domestic Equity Funds	Debit
1173	Pooled International Equity Funds	Debit
1174	Pooled Global Equity Funds	Debit
1181	Pooled Domestic Fixed Income Funds	Debit
1182	Pooled International Fixed Income Funds	Debit
1183	Pooled Global Fixed Income Funds	Debit
1193	Pooled Alternative Investments	Debit
1194	Pooled Real Estate Funds	Debit
1195	Pooled Domestic Balanced Funds	Debit
1196	Pooled International Balanced Funds	Debit
1197	Hedge Funds	Debit

ASSETS (cont.)

	ACCOUNT NAME	BALANCE
1198	PRIT Cash Fund - Retirement systems that own shares in either the PRIT Fund or any of its segments will also have funds in the PRIT Cash Fund. Accounting instructions for the PRIT Cash Fund are exactly the same as those pertaining to other pooled funds	Debit
1199	PRIT Core Fund -This Account Number is to be used only in instances when the retirement system owns the PRIT Core Fund. Any individual segment of the PRIT Core Fund that is owned separately must be listed in the appropriate Ledger Account established for the Pooled Fund Ledger Accounts listed above.	Debit

*Each Cash account must be maintained separately in the ledger and identified by name of bank or institution and account number. This includes zero balance “Payroll Clearing Accounts” and “Petty Cash”.

RECEIPTS & INVESTMENT INCOME

	ACCOUNT NAME	BALANCE	CLOSE TO
4820	Investment Inc. - Control Account	Credit	3293, 3294, 3295, 3297, 3298
4821	Investment Income Received	Credit	4820
4822	Interest Not Refunded	Credit	3297
4823	Paid Accrued Interest on Fixed Income Securities	Credit	4820
4825	Miscellaneous Income	Credit	3297
4840	Workers’ Compensation Settlements	Credit	3296
4884	Realized Gain/Profit on Sale of Investments	Credit	4820
4885	Realized Loss/Loss on Sale of Investments	Debit	4820
4886	Unrealized Gain/Increase in Market Value of Investments	Credit	4820
4887	Unrealized Loss/Decrease in Market Value of Investments	Debit	4820
4890	Contributions Received from municipality on account of military service	Credit	3295
4891	Members’ Deductions	Credit	3293
4892	Transfers from Other Systems	Credit	3293
4893	Members’ Make Up Payments and Re-deposits	Credit	3293
4894	Pension Fund Appropriation	Credit	3296
4895	Pension Reserve Appropriation	Credit	3297
4896	Expense Fund Appropriation	Credit	3298

EXPLANATION of GENERAL LEDGER ACCOUNTS

ASSETS

1040-49 Cash

Separate ledger accounts should be established for every bank account. All ledger entries should be accompanied by an explanation of the purpose of the transaction. Deposits are normally debit entries that increase the bank and general ledger balances. Withdrawals, checks issued, and similar transactions are normally credit entries that decrease the bank and general ledger balances. This category is normally reserved for cash balances that have no restrictions on the withdrawal of funds and are the funds are considered available upon demand.

1100 Individually Owned Short-Term Investments

Combines the various investment instruments utilized to invest for short-term duration. The time requirement is usually less than one year. This is normally done to avoid principal loss during a market downturn or to wait for more attractive long-term investment options than are currently available. They generally represent U. S. Treasury Bills, Commercial Paper issued by a business entity, agreements to repurchase securities sold, Certificates of Deposit, other term deposits, money market accounts, shares in cooperative savings institutions, and savings and loan institutions. Redemption of these short-term instruments is contingent upon certain circumstances that, while seldom enforced, could result in a delay in obtaining access to the proceeds upon the liquidation of these instruments. All similar investments are itemized and disclosed on Schedule 2 of the Annual Statement.

1101 Pooled Short-Term Funds

Combines the various pooled investment instruments utilized to invest for a short-term duration. The time requirement is usually less than one year. This is normally done to avoid principal loss during a market downturn or to wait for more attractive long-term investment options than are currently available. They generally represent a proportionate ownership in the pooled holdings of U. S. Treasury Bills, Commercial Paper issued by a business entity, agreements to repurchase securities sold, Certificates of Deposit, other term deposits, money market accounts, shares in cooperative savings institutions, and savings and loan institutions. Redemption of these short-term instruments is contingent upon certain circumstances that, while seldom enforced, could result in a delay in obtaining access to the proceeds upon the liquidation of these instruments. All similar investments are itemized and disclosed on Schedule 2 of the Annual Statement.

1180 Fixed Income Securities

Combines the various permanent investment of funds in instruments designed to provide an agreed upon or fixed rate of interest specified in the obligation agreement. They generally represent U. S. Treasury Notes, General Obligation Bonds issued by a business entity, and agreements to pay interest, usually semi-annually, on a fixed amount owned by the holder of these instruments. Interest is usually accrued on a regular basis, monthly, since payment of that interest is reasonably assured given the past performance and market value of the company. All similar investments are itemized and disclosed on Schedule 3 of the Annual Statement.

1170 Equities

Combines the permanent investment of funds in shares of stock of various companies. Shares are issued as part of a public offering underwritten by an investment bank or similar institution. They generally represent individual ownership interest in the company. Holders of such shares are occasionally entitled to receive dividends from their investment. Dividends are discretionary and are subject to a ratification vote by the Board of Directors of the company. Dividends are not usually accrued since payment of dividends is at the sole discretion of the owners of the company. All similar equity investments are itemized and disclosed on Schedule 4 of the Annual Statement.

I 172, I 173, I 174 Pooled Equity Funds

Combines the various pooled investment equity interests of the plan. Combines the permanent investment of funds in the pooled interest in shares of stock of various companies. They generally represent the collective ownership interest of holdings managed by one or more investment professionals in various companies. These investments may or may not generate income from dividends derived from their various holdings. Dividends are discretionary and are subject to ratification by a vote of the Board of Directors of the various companies. Dividends are not usually accrued since payment of dividends is at the sole discretion of these companies. All similar pooled equity fund investments are itemized and disclosed on Schedule 5 of the Annual Statement. The distinction between Domestic (primarily holdings of share interests within the United States), International (primarily holdings of share interests outside the United States, includes Canada and Mexico), and Global (primarily holdings of share interests outside the United States and North America).

I 181, I 182, I 183 Pooled Fixed Income Securities

Combines the various pooled investment funds primarily in obligations designed to provide an agreed upon or fixed rate of interest specified in the agreements. They generally represent the collective ownership interest of holdings managed by one or more investment professionals in U. S. Treasury Notes and Bonds, General Obligation Bonds issued by a business entity, other similar agreements to pay interest, usually semi-annually, on a fixed amount owned by the holder of these obligations. These investments usually generate interest income on these investments. This interest is usually accrued on a regular basis, monthly, since payment of that interest is reasonably assured given the past performance and market value of the pooled investment funds. All similar pooled fixed income fund investments are itemized and disclosed on Schedule 5 of the Annual Statement. The distinction between Domestic (primarily holdings of fixed income interests within the United States), International (primarily holdings of fixed income interests outside the United States, includes Canada and Mexico), and Global (primarily holdings of fixed income interests outside the United States and North America).

I 193 Pooled Alternative Investments/Private Equity

Combines the various pooled investment funds invested primarily in partnerships, limited liability corporations, joint ventures, financial derivatives, currency hedging strategies, and similar higher risk profile initiatives specified in the various investment plan agreements. Many systems limit their exposure to these types of investments to a percentage of book value at the time of the original investment. These exposures vary over time depending on the direction of the investment's performance. Pricing and imputing value to these holdings is difficult. They may involve estimates, judgments, appraisals, and similar methods that do not involve an independent third party. The actual realized value can only be determined upon liquidation of the investment. All similar pooled alternative investments are itemized and disclosed on Schedule 5 of the Annual Statement. PRIT fund segments associated with alternative investments such as Vintage year funds should be included in this category.

I 194 Pooled Real Estate Fund

Combines the various pooled real estate investment funds. They generally represent the collective ownership interest of holdings managed by one or more investment professionals in various real estate backed ventures. Real estate is perceived as being less risky than some investments based on the limited supply of real estate, the existence of a mortgage claim that would take preference upon liquidation, the fact all real estate transactions must be publicly recorded, and holdings that may involve foreclosure options. Many systems limit their exposure to these types of investments to a percentage of book value at the time of the original investment. These exposures vary over time depending on the direction of the investment's performance. Pricing and imputing value to these holdings is difficult. They may involve estimates, judgments, appraisals, and similar methods that do not involve an independent third party. The actual realized value can only be determined upon liquidation of the investment. All similar pooled

real estate investments are itemized and disclosed on Schedule 5 of the Annual Statement. PRIT fund segments associated with real estate holdings should be included in this category.

I 195, I 196 Pooled Balanced Funds

Combines the various pooled investment interests of these similar types of investments. They generally represent the collective ownership interest of holdings managed by one or more investment professionals in various mutual funds. These investments may or may not generate income for the holder. The distinguishing characteristic is the blend of several types of investments across the managed pooled portfolio. The diversification is designed to smooth the fluctuations commonly experienced in certain segments of the holdings. All similar pooled balanced fund investments are itemized and disclosed on Schedule 5 of the Annual Statement. The distinction between Domestic (primarily holdings of share interests within the United States), International (primarily holdings of share interests outside the United States, includes Canada and Mexico), and Global (primarily holdings of share interests outside the United States and North America).

I 197 Hedge Funds

A hedge fund is a private investment fund open to a limited range of investors that is permitted by regulators to undertake a wider range of activities than other investment funds and also pays a performance fee to its investment manager. Each fund will have its own strategy which determines the type of investments and the methods of investment it undertakes. Hedge funds as a class invest in a broad range of investments extending over shares, debt, commodities, and beyond. As the name implies, hedge funds often seek to offset potential losses in the principal markets they invest in by hedging their investments using a variety of methods, most notably short-selling. However, the term “hedge fund” has come to be applied to many funds that do not actually hedge their investments, and in particular, to funds using short selling and other “hedging” methods to increase rather than reduce risk, with the expectation of increasing return. Hedge funds are typically limited to select limited investors. This provides them with an exemption in many jurisdictions from regulations governing short-selling, derivative contracts, leverage, fee structures, and the liquidity of interests in the fund. A hedge fund will typically commit itself to a particular investment strategy, investment types and leverage levels via statements in its offering documentation, thereby giving investors some indication of the nature of the fund. PRIT fund segments associated with hedge fund of fund investments should be included in this category.

I 198 PRIT Cash Fund

The PRIT Cash Fund is a pooled investment vehicle which invests the liquid and short-term assets of the participating systems prior to transfer into investment into or upon withdrawal from the PRIT Core Fund. Interest is generally realized on these invested funds.

I 199 PRIT Core Fund

The PRIT Core Fund is a pooled investment vehicle which invests the assets of the participating Massachusetts state systems, regional, county, authority, district, and municipal retirement systems that choose to or are mandated to invest in the Fund. The PRIM Board employs professional investment managers and gives them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund’s assets. The Board and PRIM staff do not directly manage any PRIT Fund portfolios. Each investment manager operates under a formal contract that delineates responsibilities and performance expectations, including formal investment guidelines and administrative requirements for each portfolio. The objective is to maximize the return on investment within acceptable levels of risk by broadly diversifying the PRIT Fund’s investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and providing access to high quality, innovative investment management firms, all under the management of a professional staff and members of the Board.

1350 Prepaid Expenses

Cash payments made for services to be received in a later accounting period when the obligation to pay is actually incurred. That is when the related expense should be recognized, and the same amount is deducted from prepaid expenses. Some examples are software licenses, software support services, insurance coverage, and similar contractual obligations that require payment in advance. The expense should be recognized ratably over the period covered by the contract or service by amortizing the prepaid portion.

1398 Accounts Receivable

Accounts Receivable typically arise from investment exchanges that have not been settled, funds due from members' contributions that have not been received, and the unpaid portion of the Appropriation due for the fiscal period.

1550 Interest Due and Accrued

Interest should be recognized as earned over time. The eventual collection of this interest is reasonably assured based on the quality of the investment and similar exchanges. Fixed Income Securities typically pay interest every six months on a regular basis. Interest should be accrued during the period prior to actual receipt of the interest. This applies to both cash deposits as well as short-term investments.

1910 Land

The value of land is fixed at the time of purchase. This rarely applies to retirement systems. Occasionally, a system purchases property to locate an office they intend to occupy and conduct their normal business operations. The value of land is not subject to depreciation. Land value can be determined upon a combination purchase involving land with existing structures by allocating the relative value attributed to the land portion as disclosed on the most recent property tax assessment.

1920 Buildings

The value of existing buildings is normally fixed at the time of purchase. This rarely applies to retirement systems. Occasionally, a system purchases an existing building to locate an office they intend to occupy and conduct their normal business operations. The value of this building is subject to depreciation. Depreciation allocates the cost of the building over an appropriate period that replicates the useful life of the building. This is done to recover the cost more appropriately over many periods, rather than a single accounting period.

1929 Accumulated Depreciation: Buildings

This account reflects the accumulated amount of depreciation charged to the building over the entire period the building has been owned and occupied by the retirement system.

LIABILITIES

2020 Accounts Payable

Accounts Payable typically arise from investment exchanges that have not been settled, funds due to vendors, or owed for professional services that have been rendered or billed but not paid.

FUND BALANCES

3293 Annuity Savings Fund

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.

3294 Annuity Reserve Fund

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.

3295 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.

3296 Pension Fund

Contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

3298 Expense Fund

Contains amounts transferred from investment income for the purposes of administering the retirement system.

3297 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.

RECEIPTS

4891 Members' Deductions

Members are assigned rates that reflect the contributions that are directly deducted from their regular compensation by the employing units. The additional 2% contribution that applies to members joining the system after January 1, 1979 is calculated and deducted in a similar manner. This contribution only applies to the amount of regular compensation that is expected to exceed \$30,000 annually on a per pay period basis. The employing units report and remit these deductions on a regular basis to the retirement system. These are posted to the individual member's Annuity Savings Fund record by the retirement system. See explanation provided on page 13.

4892 Transfers From Other Systems

Members' contributions are considered portable in that a person can seek employment in another retirement system governed by the statute. If a member indicates on their application for membership that they were an active member of another system, the current system should initiate correspondence with the prior system to inquire whether it is appropriate to transfer the funds accumulated in the person's Annuity Savings Fund to the system for current investment. The collection of such funds are recorded in this account and posted to the individual member's Annuity Savings Fund record by the retirement system. See explanation provided on page 14.

4893 Members' Make Up Payments and Re-deposits

Members occasionally qualify for creditable service time based on previous employment in positions that are considered eligible for the purchase of this time, as well as certain military service. Payment

arrangements are frequently agreed to, either by payroll deduction or periodic payments that correspond to the relative value of the contributions that would have been assessed if they had been collected at the time the service was rendered. Interest is factored based on the prevailing rules in effect at the time the buyback arrangement has commenced. Special rules apply to the purchase of certain military service. These involve a percentage of the initial pay rate in effect when the member initially joined the retirement system. All funds collected as a result of these payment arrangements are recorded in this account and posted to the individual member's Annuity Savings Fund record by the retirement system. See explanation provided on page 15.

4900 Member Payments from Rollovers

Members' occasionally terminate their employment with a system and withdraw their accumulated contributions from their Annuity Savings Fund. They occasionally are re-employed by the same or another system. In that event, they may qualify to purchase the time that equates to their previous creditable service. Payment arrangements are limited to the relative value of the contributions that were previously assessed. Interest is factored based on the prevailing rules in effect at the time of the rollover. The funds frequently are transferred from an existing qualified retirement plan or account. All funds collected as a result of these rollovers are recorded in this account and posted to the individual member's Annuity Savings Fund record by the retirement system.

4898 3(8)(c) Reimbursements from Other Systems

Members' occasionally are employed by one or more systems during the course of their career in public service. The process allows for an allocation among the systems for each proportionate share of the total benefit the member is entitled to upon retirement. The system the member retires from is responsible for billing the other systems that contribute to this member's retirement benefit. PERAC calculates each system's proportionate share upon retirement. The member's regular benefit is expensed as a normal retirement. The portion of funds that is recovered from the other participating systems is recorded in this account. See explanation provided on page 19.

4899 Received from Commonwealth for COLA and Survivor Benefits

The Commonwealth of Massachusetts is responsible for the entire portion of the total Cost-of-Living-Adjustment for periods from 1981 through 1996. These funds are received annually and reconciled to a statement provided by the State Retirement Board. The receipt of these funds is recorded in this account. See explanation provided on page 18.

4894 Pension Fund Appropriation

The amounts appropriated by the various governmental units as established by PERAC to pay their respective portion of the unfunded pension obligation consistent with their established funding schedule. See explanation provided on page 17.

4840 Workers' Compensation Settlements

An employee is injured on the job and entitled to benefits under the Workers' Compensation coverage provided by the employer. Benefits may be paid over an extended period. Eventually, the employee may qualify for retirement benefits, subject to the settlement of the claim. Some claims involving retirees are eventually settled in court, or at the Commonwealth's Division of Industrial Accidents. Settlement documents may involve a negotiable instrument, such as a voucher, that should be received by the Retirement System and deposited to cash. The offset to this entry should now be this General Ledger Account. See explanation provided on page 45.

4896 Expense Fund Appropriation

This account has largely fallen into disuse.

4897 Federal Grant Reimbursement

See explanation provided on page 32.

4895 Pension Reserve Appropriation

This account has largely fallen into disuse.

4822 Interest Not Refunded

Self-explanatory.

4825 Miscellaneous Income

Anything else not specifically mentioned in other references both in and outside of this manual.

Disbursements**5757 Refunds to Members**

See explanation provided on page 25.

5756 Transfers to Other Systems

See explanation provided on page 24.

5750 Annuities Paid

See explanation provided on page 27.

5759 Option B Refunds

See explanation provided on page 28.

5751 Pensions Paid

See explanation provided on page 27.

5755 3(8)(c) Reimbursements to Other Systems

See explanation provided on page 31.

5752 COLA's Paid

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(CPI) 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 the 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 by the Commonwealth of Massachusetts.

5753 Chapter 389 Beneficiary Increase Paid

See explanation provided on page 18.

4880/4890 Military Service Fund Contributions Paid and Return to Municipality for Members Who Withdrew Their Funds

See explanation provided on pages 20 and 21.

5118 Board Member Stipend

See explanation provided on page 29.

5119 Salaries

See explanation provided on page 30.

5304 Management Fees

See explanation provided on page 29.

5305 Custodial Fees

See explanation provided on page 29.

5307 Investment Consultant Fees

See explanation provided on page 29.

5308 Legal Expenses

See explanation provided on page 29.

5309 Medical Expenses

See explanation provided on page 29.

5310 Fiduciary Insurance

See explanation provided on page 29.

5311 Service Contracts

See explanation provided on page 29.

5312 Rent Expense

See explanation provided on page 29.

5315 Professional Services

Many systems are using the services of independent actuaries, independent CPA firms, and management consultants for operational issues, software programmers, and similar professional services. These are currently primarily hidden in Administrative Expenses. We needed a separate General Ledger Account to isolate the emergence of these costs and evaluate their impact on the pension systems.

5320 Education and Training

The cost of tuition, fees, seminars, and similar services provided for purposes of enhancing the knowledge and skills of the retirement system management and staff. This is the alternative to including these expenses as reimbursed travel.

5589 Administrative Expenses

See explanation provided on page 29.

5599 Furniture and Equipment

See explanation provided on page 29.

5719 Travel

See explanation provided on page 29.

5829 Depreciation Expense: Building

This account reflects the amount of depreciation charged to the building over this specific current period.

4821 Investment Income

This 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. See explanation provided on page 42.

4823 Paid Accrued Interest On Fixed Income Securities

See explanation provided on page 35.

4884 Realized Gains (Profits)

See explanation provided on page 39 and 41.

4885 Realized Losses

See explanation provided on page 38 and 40.

4886 Unrealized Gains (Increase in Market Value)

See explanation provided on page 43.

4887 Unrealized Losses (Decrease in Market Value)

See explanation provided on page 44.

ACCOUNTING PROCESS

The following accounting records must be maintained on a regular basis:

CASH BOOKS-MONTHLY PROCESS

In order to comply with the PERAC Investment Unit's requirement of submitting monthly "cash books", each board should record all cash receipt and disbursement activity in a timely manner. At the beginning of the new calendar year, all cash receipts and disbursements should be posted in the proper month to both the Cash Receipts and Cash Disbursements Journal. Once this step has been completed for the month, the General Ledger Detail Report should be processed and reviewed by General Ledger account number. This step should ensure that all postings were made to the correct General Ledger account number. Investment manager and custodian bank reports should be balanced to the ending balance of accounts on the General Ledger. Any errors should be corrected by an adjusting journal entry. Finally, the completed month's Trial Balance should be processed and reviewed against any supporting schedules to ensure balances are accurate. All total debits and credits processed in the month should equal. Finally, a copy of the Trial Balance, along with the Cash Receipts Journal, Cash Disbursements Journal, and adjusting journal entries should be submitted to the PERAC Investment Unit at month's end.

CASH/BANK ACCOUNT RECONCILIATIONS

After the monthly accounting records are completed and processed, the board administrator should forward to the treasurer a copy of the Expense Checking and Payroll Cash Account activity per the General Ledger Distribution Report. This will assist the treasurer in preparing the monthly bank reconciliation. The adjusted bank balance per the treasurer's bank reconciliation must agree to the ending General Ledger cash balance (the bank reconciliation should not be a reproduction of solely bank statement activity). Any variances would be outstanding items such as checks or deposits in transit. Permanent variances should be analyzed by both the treasurer and the board administrator. Generally, a variance correction will require an adjusting journal entry. According to G.L. c. 32, § 23(2)(a), the treasurer shall be the custodian of the retirement system's funds. As custodian of the retirement fund, the treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. By segregating reconciliatory duties, proper internal control of the retirement system is maintained. The treasurer must forward appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the retirement board on a monthly basis. The retirement board should then reconcile the documents to the General Ledger. Any checks outstanding for more than six months should be researched by the board administrator, so that the proper voiding and recording of these items can be completed. The board must ensure that the treasurer fulfills his/her obligation as custodian of the fund.

Some boards maintain payroll bank clearing accounts. It's important to note that these accounts should be reported on the General Ledger along with any monthly transaction activity. A completed bank reconciliation of these accounts should be prepared monthly. Normally there is a bank statement balance which represents uncashed payroll checks (outstanding checks). However, the reconciliation should take into account the outstanding checks which in turn will bring the adjusted bank statement balance to zero in line with the General Ledger account balance.

YEAR END CLOSING PROCESS

Please refer to the sections of this manual: “Annual Statement Preparation”(Page 51), “Closing Entries” (Page 53), and sample trial balances (Pages 55-61).

At this point in the twelve month process, the majority of your board’s operating activity has been recorded in the General Ledger. You are getting ready to review your pre-closing trial balance, make any final adjusting entries, and close-out all cash receipt, cash disbursement, and investment income General Ledger accounts to their respective fund accounts. The majority of the General Ledger accounts should be supported by subsidiary schedules such as Supplemental Membership Schedule, Military Reserve Fund Detail balances, Accounts Receivable, Accounts Payable, Custodian Bank, and Investment Manager Year-end Reports. The PERAC Audit Unit focuses on accurate detail supporting your year-end General Ledger balances. If a General Ledger account can not be substantiated, please prepare a reconciling schedule to explain the difference.

All fund accounts have normal credit balances. At times, the PERAC Audit Unit has observed a debit balance in the Pension Fund General Ledger Account. This is normally due to paying out more benefits than anticipated. It’s possible that pension appropriations and transfers from earnings aren’t enough to cover pension expenses paid out. It’s a worthwhile exercise to try to determine why this happened. An adjusting entry to reverse the debit balance should be made by debiting the Pension Reserve General Ledger Account and crediting the Pension Fund General Ledger Account. The amount of the adjustment can be taken from the most recent PERAC appropriation letter in the column below “Transfer From Pension Reserve Fund to the Pension Fund”.

ACCRUAL ACCOUNTING

Generally Accepted Accounting Principles (GAAP) emphasize that accounting transactions should be recognized and recorded in the year of transaction and not necessarily when payment is made or received. The accruals concept also says that the net profit for the year is the difference between revenues and expenses incurred to generate those revenues. In determining profit or loss at all times, revenues should be matched against expenses incurred in the process of generating that revenue in the same period. It is necessary to recognize all the revenue/income earned during a period, regardless of when money is received. In the same way, all expenses incurred by the business should be included regardless of when they are paid. In accordance with these concepts, Accounts Receivable and Accounts Payable General Ledger Accounts must be used along with the corresponding Expense and Income General Ledger Accounts. In the past, Massachusetts retirement systems have been accounted for primarily on a “Cash Basis” of accounting.

ACCOUNTS PAYABLE AND ACCOUNTS RECEIVABLE ACCRUALS

At year-end (December 31st), any expenses and revenues/receipts incurred should be recorded or accrued in order to make your ending General Ledger balances as accurate as possible. This “matching principle” concept is promulgated by GAAP.

ACCOUNTS PAYABLE ACCRUAL

If you have bills/invoices including investment purchases which haven’t been paid, debit the appropriate expense or Investment General Ledger account numbers and credit your Accounts Payable General Ledger Account. The details of these accruals should be supported by Schedule A on the Annual Statement. In the next year, upon actual payment of these accrued bills, debit the Accounts Payable General Ledger Account and credit the Cash General Ledger Account.

ACCOUNTS RECEIVABLE ACCRUAL

If you have pending receipts including investment sales which haven’t been received at year-end, credit the appropriate receipt or Investment General Ledger account numbers and debit your Accounts Receivable General Ledger Account. The details of these accruals should be supported by Schedule A on the Annual Statement. In the next year, upon actual receipt of these items, debit the Cash General Ledger Account and credit the Accounts Receivable General Ledger Account.

PENSION APPROPRIATION ACCRUAL

Due to the fact that pension Appropriation bills cover a twelve month fiscal year period (7/1-6/30) and Board records are calendar year, a December 31st pension appropriation accrual should be made to recognize the remaining fiscal year appropriation due to the board at December 31st. Although the total actual receipt may not be due until into the following year, the books should reflect the full amount of the remaining obligation due to the retirement board. To recognize the future obligation, make a debit to Accounts Receivable General Ledger Account and a credit to Pension Appropriation General Ledger Account. In the next year, upon actual receipt of the pension appropriation, your entry should be to debit the Cash General Ledger Account and credit the Accounts Receivable General Ledger Account.

FIXED ASSET ACCOUNTING

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT (GASB) 34

GASB Statement 34, issued in June 1999, represents a significant change to traditional government financial reporting standards. For the first time, accrual accounting is required for all government activities and all capital assets are generally required to be depreciated.

INFRASTRUCTURE ASSET DATA

Data on infrastructure assets are a required part of the new financial reporting model, and governments must decide when to begin recording them retroactively. Under Statement 34, governments can delay their decision for up to four years following implementation. They have to decide how far back to report. The minimum requirement is to report major infrastructure assets acquired in fiscal years ending after June 30, 1980. Therefore, if a retirement system acquired a building after fiscal year ending June 30, 1980, the cost of the building must be capitalized as a fixed asset and the accumulated depreciation account must be adjusted retroactively. Please refer to the section of this manual, “Purchase of Building or Office Condominium” (Page 33).

GASB 34 requires that fixed asset records must be maintained by public entities in a complete, accurate, and detailed manner and that governments report all capital assets with the consideration of depreciation. It requires that fixed assets such as buildings be depreciated over their useful life. The Commonwealth of Massachusetts uses a term of 40 years for the useful life of a building and depreciates it under the straight line methodology. This results in an annual depreciation rate of 2.5%.

The cost of purchasing a fixed asset includes all costs necessary to put that asset into existing use and location, including but not limited to freight, insurance, and installation (i.e., ancillary costs.) These costs may include legal costs, eminent domain costs or environmental remediation.

To comply with GASB 34, we added several new titles to our existing chart of accounts. These were designed to be consistent with the state and town treasurers’ guidelines for accounting for the following types of assets.

Transition

Statement No. 34 requires a prior period adjustment to the earliest period presented for changes to proprietary funds resulting from the implementation of the Statement. If adjustments to prior periods are not practical, a cumulative adjustment to the beginning net assets for the initial year of implementation is permitted. The notes to the financial statements should include disclosures about the change.

Land: #1910

Land is normally capitalized but is not depreciated. The theory is that there is virtually no new land being made and it will not require replacement. The useful life term does not apply.

Buildings: #1920

Buildings acquired and used in the normal course of the business operations of the retirement system are required to be capitalized and depreciated over their useful lives. The theory is that normal use engenders a systemic decline by deterioration over time.

Accumulated Depreciation: #1929

Depreciation is allocated ratably over the estimated useful life of the capitalized value. The charge for the period is recorded as equivalent to a Disbursement and is posted to General Ledger #5829 – Depreciation Expense. The charges that accumulate over the period the asset is owned are credited

to #1929 Accumulated Depreciation. When the asset is disposed of, usually via a sale transaction, the difference between the net book value (cost less accumulated depreciation) and the sale price, net of costs associated with the disposal, is a realized gain or loss, #4884 or #4885.

Other Acquisition Costs

Other acquisition costs that may be considered for capitalization include, but are not limited to:

Furniture and fixtures – major acquisitions when relocating an office;

Leasehold improvements – major renovations required to make the facilities suit the purpose for which they are intended;

Equipment – an acquisition of significant value that has a specialty use that is likely to provide benefit beyond the normal single year accounting cycle.

ACCOUNTING RECORDS

JOURNALS

The most common journals are the Cash Receipts and Cash Disbursements Journals. Transactions that do not involve cash must be entered as either a journal entry or an adjusting journal entry. Journal entries must be numbered consecutively, dated, and an explanation must be recorded for each entry. Each entry's debits and credits must equal each other. All journal entries must be posted to the appropriate ledger account in the General Ledger. Examples of journal entries can be found on Pages 13 through 44 of this document.

GENERAL LEDGER

A record must be kept of all ledger accounts. Each account must be kept on a separate page. The beginning of the year balance must be entered. The total of the transactions for each ledger account from the Cashbook page must be entered as well as any amounts entered as journal entries for the current month. A new total for each account in the General Ledger must be calculated monthly. This record is referred to as the General Ledger Detail. This record is the most commonly utilized accounting record available.

TRIAL BALANCE

Each month, after all entries have been posted to the General Ledger, a list must be made of all ledger accounts and their balances, with the debits listed in one column and the credits in another column. The total of all of the debits must equal the total of all of the credits. Examples of the Trial Balance can be found on Pages 55 through 62 of this document.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
12/31/06	JE#1	Accounts Receivable Annuity Savings Fund (see note below)	1398 3293	\$5,000.00	5,000.00
		To set up Account Receivable for the 12/31 value of Ms. Smith's buyback contract.			
1/10/07	JE#1	Cash Members' make-up payments and re-deposits	1040 4893	100.00	100.00
		To collect Ms. Smith's 1 st buyback payment (Note: individual member record in Supplemental Schedule should be updated at this time).			

Note: The Tyler TACS accounting software will not allow the adjusting Journal Entry #1 above (only fund to fund General Ledger accounts can be processed). Therefore, the credit Journal Entry would be made to General Ledger #4893 which would close to #3293.

Example

On February 24th, Bill Jones makes a one-time make-up payment of \$1,000.00 relating to a full year of service that he earned while being employed with CETA in 1975.

Action

To record the one time make-up payment received on February 24th from Bill Jones.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
2/24	JE#3	Cash Members' Make-up payments and Re-deposits.	1040 4893	\$1,000.00	1,000.00
		To collect Bill Jones make-up payment for one year of creditable service.			

Section 105

Any retiree who wishes to return to active service and later retire with a new benefit is eligible to do so. First, the retirement allowance already received must be paid back plus interest. Then the member must work for at least 5 years to receive a new calculation, otherwise any amounts paid into the retirement system are refunded.

Example

Jane Smith retired several years ago. Since then she has received \$10,000.00 in annuity payments and \$30,000.00 in pension payments. Using the Section 105 Buyback Worksheet, the total amount she owes the system is calculated as \$45,000.00. She paid it in a lump sum, which was received by the system on July 1.

Action

To record the lump sum payment of Jane Smith’s retirement allowance plus interest.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
7/1	JE#25	Cash	1040	\$45,000.00	
		Annuities Paid	5750		10,000.00
		Pensions Paid	5751		30,000.00
		Miscellaneous Income	4825		5,000.00
		To collect Jane Smith’s make-up payment to return to service.			

Example

After two and a half years at her new job, Jane Smith notifies the retirement board that she is going to stop working and resume receiving a retirement check.

Action

Jane Smith is due two refunds. The first refund consists of \$8,000.00 - the contributions that Ms. Smith paid from the regular compensation that she earned during the last two and a half years. Secondly, the \$45,000.00 that Ms. Smith repaid to rejoin the system will be refunded to her.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
1/5	JE#1	Refunds to Members Interest Not Refundable Cash	5757 4822 1040	\$8,100.00	100.00 8,000.00
		To record refund of contributions to Jane Smith.			
1/5	JE#2	Annuities Paid Pensions Paid Miscellaneous Income Cash	5750 5751 4825 1040	\$10,000.00 \$30,000.00 \$ 5,000.00	45,000.00
		To record refund of Jane Smith's Section 105 payment			

Result: Jane Smith is now qualified to reinstate her original retirement benefit. She has no additional creditable service for the interim period she was employed.

APPROPRIATION TO PENSION FUND AND ACCRUAL TO ACCOUNTS RECEIVABLE

Each year, PERAC issues letters specifying the amount that must be appropriated by each governmental unit within each retirement system for the next fiscal year. These amounts are based on the approved funding schedule for each retirement system. When recording these appropriations, retirement boards must note the fiscal year for which the payment is being made, as well as the name of the governmental unit that is making the payment. The appropriation amounts in the PERAC letter represent amounts that are billed to the municipality or a governmental unit. At year end, any portion of the bill that is yet to be collected must be accrued to Accounts Receivable.

Example

On December 30th, a Pension Fund appropriation check in the amount of \$2,432,000.00 is received from the city treasurer. Also, it is determined that the remaining balance for the Fiscal Year appropriation amount to be received by June 30th is \$4,000,000.00.

Action

To record the receipt of an appropriation from a government unit and 12/31 accrual of remaining fiscal year appropriation amounts due.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
12/30/06	JE#2	Cash Pension Fund Appropriation To record receipt of appropriation received from municipality.	1040 4894	\$2,432,000.00	2,432,000.00

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
12/30/06	JE#3	Accounts Receivable Pension Fund Appropriation To accrue appropriations due for FY06 from municipality.	1398 4894	\$4,000,000.00	4,000,000.00
6/1/07	JE#4	Cash Accounts Receivable To record receipt of FY06 appropriation in calendar year 2007.	1040 1398	\$4,000,000.00	4,000,000.00

REIMBURSEMENT FROM COMMONWEALTH FOR COLA AND CHAPTER 389 SURVIVOR BENEFIT INCREASES

Cost of Living Adjustments (COLA) approved by the Commonwealth between 1982 and 1997 and survivor benefit increases resulting from Chapter 389 are reimbursed by the Commonwealth through the State Retirement Board.

Example

On January 12th, a check in the amount of \$3,220.00 is received from the State Retirement Board to reimburse the retirement system for Commonwealth mandated COLA and Chapter 389 benefits.

Action

To record the receipt of a reimbursement from the appropriation from the State Retirement Board.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
1/12	JE#2	Cash Received from Commonwealth for COLA & Survivor Benefits. To record receipt of COLA & Survivor Benefits.	1040 4899	\$3,220.00	3,220.00

RECEIPT OF UNCASHED RETIREMENT ALLOWANCE CHECKS

When a retirement check is issued subsequent to a retiree's death, it must be returned to the retirement system.

Example

On January 16th, the retirement board receives an un-cashed retirement allowance check from the estate of Mary Smith in the amount of \$690.00: \$140.00 of which is the annuity portion, \$550.00 is the pension portion.

Action

To record the receipt of an un-cashed retirement allowance check in the Journal.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credit
1/16	JE#1	Cash Annuities Paid Pensions Paid To record the return of un-cashed pension check.	1040 5750 5751	\$690.00	140.00 550.00

Please note that, in addition to checks returned by the estates of deceased retirees, there are other instances of benefit checks remaining uncashed. Retirement boards must attempt to contact the retiree or retiree's relatives about any benefit check that remains uncashed for six months. If contact cannot be established, a stop payment must be issued and an entry modeled on the above example must be made to remove the payment of the check from the retirement board's records. If a series of uncashed checks is returned for a retiree (or beneficiary) without receipt of a death notice for the retiree, the retirement board should cease to issue those benefit checks until the retiree's status has been validated.

TRANSFER OF MEMBER ACCOUNTS TO OTHER RETIREMENT BOARDS

When a request is received to transfer a member's Annuity Savings Fund account to another Massachusetts retirement board, the retirement board must prepare a check and complete a Transfer to Other System form. This form must include the total amount of the member's deductions and interest, the starting and ending dates of the member's creditable service, and the total amount of years and months of creditable service that the retirement board will accept under Chapter 32, Section 3(8)(c).

Example

On January 2nd, the Annuity Savings Fund account of Bill Jones is transferred to the Quabbin Retirement System. A check (and a Transfer to Other System form) is made out in the amount of \$7,430.00.

Action

To record the transfer of a member's account to another retirement system.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
1/2	JE#2	Transfers to Other Systems Cash To record member transfer to Quabbin Retirement System.	5756 1040	\$7,430.00	7,430.00

REFUNDS OF MEMBER DEDUCTIONS

A refund is a lump sum returned to a member (or beneficiary) of the member's accumulated total deductions plus accrued interest which have been set aside in an Annuity Savings Fund Account administered by the member's retirement board.

In addition to those members who are already retired, a member may not request a refund if:

- he/she continues to be a member-in-service; (exception for dual member);
- he/she is on an official leave of absence;
- he/she has a Workers' Compensation claim pending or if he/she is receiving Workers' Compensation benefits for total incapacity;
- he/she has been charged with, or convicted of, misappropriation of funds or property of the governmental unit by which he/she was employed;
- he/she is appealing a dismissal or has otherwise expressed his/her intent to continue in public employment.

The same accounting model is used to record a:

- (1) refund made upon a member's withdrawal from public service
- (2) refund made to the beneficiary of a member who dies while in service

Example

On January 3rd, a refund check in the amount of \$12,450.00 is issued to Mary Smith. Included in Ms. Smith's Annuity Savings Fund account is \$395.00 in interest that must be transferred to the Pension Reserve Fund.

The amount to be debited to Refunds (Ledger #5757) must be the entire amount of the member's account, \$12,845.00. For larger systems, which may be issuing several refunds on one warrant, the total amount refunded may be entered in the Cash Book rather than individual entries.

Action

To record a refund of an Annuity Savings Fund account (less interest) to a member.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
1/3	JE#2	Refunds to Members Interest Not Refundable Cash To record refund to member.	5757 4822 1040	\$12,845.00	395.00 12,450.00

Interest that is not refundable includes:

- 1.) interest accrued more than two years after the date of resignation;
- 2.) interest that accrues for those who became members after January 1, 1984 and who resign with less than five years of service;
- 3.) 50 percent of the interest that accrues for those who became members after January 1 1984 and who resign with at least five years of service but less than ten years of service;
- 4.) Section 15 – Dereliction of Duty.

PURCHASE OF FIXED INCOME SECURITIES (BONDS)

To record the purchase of a fixed income security (bonds), including those insurance contracts that are fixed income securities, the entire amount paid, broken down by principal and accrued interest, should be included.

Example

On January 12th, the retirement board purchases a GNMA Bond, Pool Number 15678, whose rate of interest is 8.25% and whose date of maturity is 12/15/05. Its face value (par value) was \$1,021,179.28. Its price was 96.25%, which resulted in a payment of \$982,885.06. Additionally, the accrued interest to be paid was \$5,105.90. The total amount paid is \$987,990.96. The settlement date is January 31st; the date upon which payment is made and the purchase is recorded in the Cash Book.

Action

To record the purchase of a bond.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
1/31	JE#3	Investments, Fixed Inc. Securities	1180	\$982,885.06	
		Accrued Interest Paid	4823	5,105.90	
		Cash	1040		987,990.96
		To record purchase of a bond.			

Sample Confirmation

THE QUICKTRADE INVESTMENT SERVICES INC					
YOU BOUGHT					PRICE
\$1,021,179.28					96.25
DESCRIPTION- G.N.M.A.-Pool # 15678					
8.25%		12/15/05			
CUSIP NO-576983SU1					
TRADE DATE-01/12/05			SETTLEMENT DATE-01/31/05		
PRINCIPAL	INTEREST	COMMISSION	TAX	FEE	NET AMOUNT
\$982,885.06	\$5,105.90				\$987,990.96

PURCHASE OF EQUITIES (STOCKS)

The purchase price of equity (stock) includes all fees and commissions. Equities must be carried in retirement books at market value. An adjustment to revalue these investments must be made on December 31st.

Please refer to the section of this manual on pooled funds (Pages 46-48) for guidance about accounting entries for equities that are part of pooled funds.

Example

On January 20th, the retirement board purchases 5,000 shares of General Electric, at a price of \$29.50 per share. Additionally, the retirement board paid a commission of \$400.00. The total amount to be paid is \$147,900.00. The settlement date is January 27th, the date upon which payment is made and the purchase is recorded in the Cash Book.

Action

To record the purchase of equity

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
1/27	JE#3	Investments, Equities	1170	\$147,900.00	
		Cash	1040		147,900.00
		To record purchase of Equities- General Electric			

Sample Confirmation

THE QUICKTRADE INVESTMENT SERVICES INC					
YOU BOUGHT					PRICE
5,000 shares					29.50
DESCRIPTION-GENERAL ELECTRIC					
CUSIP NO-034568458					
TRADE DATE-01/20/05			SETTLEMENT DATE-01/27/05		
PRINCIPAL	INTEREST	COMMISSION	TAX	FEE	NET AMOUNT
\$147,500.00		\$400.00			\$147,900.00

SALE OF FIXED INCOME SECURITIES (BONDS)

SALES WHICH RESULT IN A LOSS

When recording the sale of a fixed income security (bond), any interest received at the time of sale or maturity must be entered in General Ledger Account # 4821-Investment Income Received.

Example

On January 7th, the retirement board sells a \$500,000 face value Wells Fargo & Co. - Bond, whose maturity date is February, 1 2009. The selling price is 80%, resulting in the board's receipt of \$400,000.00 on account of principal. The settlement date is January 17, 2006. Additionally, the retirement board receives \$17,853.60 in accrued interest. The total proceeds of this sale amount to \$417,853.60.

Action

To record a sale which results in a loss.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
1/14	JE#3	Cash	1040	\$417,853.60	
		Realized Loss	4885	100,000.00	
		Fixed Income Securities	1180		500,000.00
		Investment Income Received	4821		17,853.60
		To record loss on sale of bond.			

Sample Confirmation

THE QUICKTRADE INVESTMENT SERVICES INC					
YOU SOLD			PRICE		
\$500,000.00			80.00		
DESCRIPTION- Wells Fargo & Co. - Bond					
7.875%		02/1/09			
CUSIP NO-8156494KU7					
TRADE DATE-01/07/06			SETTLEMENT DATE-01/17/06		
PRINCIPAL	INTEREST	COMMISSION	TAX	FEE	NET AMOUNT
\$400,000.00	\$17,853.60				\$417,853.60

ADJUSTMENT TO MARKET VALUE

Once, each year on December 31st, investments that are being carried at market value must be adjusted to the new market values. These investments include all individually owned equities. Pooled funds and PRIT do not need to be adjusted since they are continuously carried at market value.

INCREASE IN MARKET VALUE

Example

On March 20th of this year, the retirement board purchases 5,000 shares of General Electric at \$29.50 a share plus a \$400.00 commission for a total cost of \$147,900.00. On December 31st, the market value of this stock is \$30.00 a share. The total market value of the board's 5,000 shares of General Electric must now be valued on the board's books at \$150,000.00. Therefore, the board must make a Journal entry in the amount of \$2,100.00, which is the difference between the board's costs and the new market value. This procedure must be carried out for all equities owned on December 31st.

Action

To record the increase in market value of an individually owned equity.

Sample Journal Entry

Date	Journal Entry Number	Account Description	Account Number	Debits	Credits
12/31	JE#3	Investment, Equities Unrealized Gain To record year-end unrealized market value gain from equities.	1170 4886	\$2,100.00	2,100.00

WORKERS' COMPENSATION

When a member who received Workers' Compensation benefits during his/her tenure as a public employee retires, special consideration must be used to determine the retirement benefit. Special rules apply under G.L. c. 32, § 14(1) that provide for the reduction of the member's disability retirement allowance because of the receipt of Workers' Compensation benefits for the same injury.

In some cases, a member's Annuity Savings Fund (ASF) will need to be adjusted upon retirement. This is necessary if the member was receiving Workers' Compensation benefits for total incapacity and if increasing the ASF would increase the retirement benefit. This increase in the total benefit will occur only in termination allowances, ordinary disability allowances for veterans, and accidental disability retirement benefits not subject to the 75% cap. Creditable service is allowed for the entire period that Workers' Compensation benefits for total incapacity had been received.

The amount that the member would have contributed to the ASF if working at full pay rate instead of being on leave must be determined. Regular interest needs to be calculated and added to this amount. This benefit is then compared to the benefit determined without using the additional contributions. If the benefit payable to the member is greater when the additional presumed contributions are included in the calculation, this greater benefit is payable to the member.

For members whose retirement allowances increase as a result of this additional annuity, an amount equal to the amount of the contributions that the member would have contributed is to be transferred from the Pension Fund to the Annuity Reserve Fund.

Retirement systems must develop a system to keep an annual record of the contributions that would have been withheld while a member is receiving Workers' Compensation benefits.

When the person retires, to record the transfer of funds required to properly account for the increased annuity due to considering a retiree's Workers' Compensation benefits:

Debit: #3296 Pension Fund

Credit: #3293 Annuity Savings Fund

Debit: #3293 Annuity Savings Fund

Credit: #3294 Annuity Reserve Fund

LUMP SUM WORKERS' COMPENSATION SETTLEMENTS

If a retiree's Workers' Compensation claim is settled by way of a lump sum settlement that includes a payment to the retirement system and the payment is received by the board, it should be deposited to cash and credited to the General Ledger Account # 5751 - Pension Paid. Lump sum settlement amounts not recouped by the retirement system by way of a payment from the settlement must be recovered by offsetting or reducing the pension portion of the retiree's allowance.

POOLED FUNDS

What is a Pooled Fund?

Pooled funds are investment vehicles such as mutual funds, commingled funds, group trusts, real estate funds, limited partnership funds, and alternative investments. The distinguishing feature of a pooled fund is that a number of retirement boards or investors contribute money to the fund. This contrasts with a separate account in which only one retirement board or investor contributes money. PERAC requires a monthly or quarterly fund manager's statement for each pooled fund investment the retirement system holds. The fund manager's statement must contain the following six elements of information:

1. Beginning and ending value of the board's investment in the pooled fund
2. Realized or unrealized gains and losses
3. Income either received by the board or re-invested
4. Cash or stock distributions
5. Purchases or sales of additional units of the fund
6. Expenses such as management fees

PERAC has designed a pooled fund worksheet (see worksheet template on Page 48) to aid in providing this information. However, as long as the fund manager's statement contains all six elements, it may be submitted instead of the pooled fund worksheet.

POOLED FUND ACCOUNTING INSTRUCTIONS

The accounting entries that are described below correspond to the numbers on the worksheet.

1.) To record a purchase, the following Cashbook entry must be made:

Debit: Pooled Fund (use appropriate ledger)
Credit: Cash

2.) To record income from investment income, realized or unrealized gains, the following Journal entry must be made:

Debit: Pooled Fund (use appropriate ledger)
Credit: Investment Income (Ledger Account Number 4821)
Credit: Realized Gain (Ledger Account Number 4884)
Credit: Unrealized Gain (Ledger Account Number 4886)

To record operating losses, realized or unrealized losses, the following Journal entry must be made:

Debit: Investment Income (Ledger Account Number 4821)
Debit: Realized Loss (Ledger Account Number 4885)
Debit: Unrealized Loss (Ledger Account Number 4887)
Credit: Pooled Fund (use appropriate ledger)

3.) To record management fees* paid from the fund, the following Journal entry must be made:

Debit: Management Fees (Ledger Account Number 5304)
Credit: Pooled Fund (use appropriate ledger)

POOLED FUND WORKSHEET

NAME OF FUND _____

PERIOD ENDING _____, 20__

PLEASE CHECK ONE OF THE FOLLOWING:

___ MONTHLY STATEMENT
 ___ QUARTERLY STATEMENT

MARKET VALUE AT BEGINNING OF PERIOD \$ _____

PLUS:

PURCHASES BY SYSTEM (1)\$ _____

ADDITIONS DUE TO INCOME:
 INVESTMENT INCOME (LOSS) (2)\$ _____

REALIZED GAIN (LOSS) (2)\$ _____

UNREALIZED GAIN (LOSS) (2)\$ _____

LESS:

MANAGEMENT FEES (3)\$ (_____)

SALES BY SYSTEM* (4)\$ (_____)

STOCK DISTRIBUTION** (5)\$ (_____)

MARKET VALUE AT END OF PERIOD \$ _____

STOCK DISTRIBUTION

# of Shares: _____	Name of Stock: _____	Market Value: \$ _____
# of Shares: _____	Name of Stock: _____	Market Value: \$ _____
# of Shares: _____	Name of Stock: _____	Market Value: \$ _____
Total Market Value:		_____

*Includes income not reinvested and cash distribution to the system.

**Total market value of new stock should correspond to the decrease in market value of pooled fund.

***Some pooled funds cannot be designated by referring to fair market value. Real estate and alternative investments, hedge funds, venture capital, limited partnership ventures, and similar investments are not valued by referencing any specific trades on an unrestricted market or recognized exchange. You should exercise caution when referring to these as valued at "fair market value."

CONTROL ACCOUNTS AND SUBSIDIARY ACCOUNTS

The PERAC Chart of Accounts contains two primary “control” accounts that are separately listed on the trial balance. However, PERAC requires separate reporting of the results for a number of categories within these control accounts.

General Ledger #4821 is the control account for investment income. The PERAC Annual Statement requires you to separately report the investment income generated from: cash, short-term investments, fixed income securities, equities, pooled funds, and any commission recapture arrangements.

Similarly, General Ledger #5751 is the control account for pensions paid. The PERAC Annual Statement requires you to separately report the benefit sums paid out to: regular pension benefits, survivorship benefits, ordinary disability benefits, accidental disability benefits, accidental death benefits, and Section 101 benefits.

As a result, any automated or manual accounting system involves the creation of subsidiary account records that, when added together to a sum total, populate the control account.

We urge you to consider setting up and maintaining the following subsidiary accounts as integral separate account categories within your existing chart of accounts. The primary advantage is you get to view a comprehensive preliminary trial balance without any need to separately identify the elements and totals associated with the subsidiary records. The preliminary trial balance becomes more informative. It may also make it easier to identify errors and misclassifications within the categories. Since the bookkeeping requirement exists, why not formalize it and minimize the subsidiary account recordkeeping effort? This is designed as a simplification to avoid a costly duplication of effort under current rules and practices.

Current General Ledger

#4821 – Investment Income Control

Consists of:

#9010 – Cash Income

#9011 – Short-Term Investments Income

#9012 – Fixed Income Securities Income

#9013 – Equities Income

#9014 – Mutual/Commingled RE Funds

#9015 – Mutual/Commingled Venture Cap

#9016 – PRIT Cash Fund Income

#9017 – PRIT Capital Fund Income

#9020 – Commission Recapture

#9021 – Pooled Fund

Proposed Subsidiary Accounts

#4821 – Investment Income Control

#4821-1 – Cash Income

#4821-2 – Short-Term Investments Income

#4821-3 – Fixed Income Securities Income

#4821-4 – Equities Income

#4821-5 – Mutual/Commingled RE Funds

#4821-6 – Mutual/Commingled Venture Cap

#4821-7 – PRIT Cash Fund Income

#4821-8 – PRIT Capital Fund Income

#4821-9 – Commission Recapture

#4821-10 – Pooled Fund

Current General Ledger

#5751 – Pensions Paid

Consists of:

#9001 – Regular Pension Payments

#9002 – Survivorship Payments

#9003 – Ordinary Disability Payments

#9004 – Accidental Disability Payments

#9005 - Accidental Death Payments

#9006 – Section 101 Benefits

#9007 – Other Pension – Non-Contributory

Proposed Subsidiary Accounts

#5751 – Pensions Paid Summary Total

#5751-1 – Regular Pension Payments

#5751-2 – Survivorship Payments

#5751-3 – Ordinary Disability Payments

#5751-4 – Accidental Disability Payments

#5751-5 - Accidental Death Payments

#5751-6 – Section 101 Benefits

#5751-7 – Other Pension – Non-Contributory

Be advised some vendors limit the size of fields available to assign as primary ledger accounts. These are usually restricted to the four primary digits assigned by PERAC. For systems with limitations on the size of identifying digits or other restrictions, alternative numbers or codes could be used. The year-end closing accounts remain exactly the same. The year-end closing process remains essentially unchanged.

YEAR END CLOSING PROCESS

ANNUAL STATEMENT PREPARATION

The following steps must be taken to complete the Annual Statement:

1. Complete the membership schedule to determine the Annuity Savings Fund interest required.
2. Complete the membership schedule to determine the Military Fund interest required.
3. Calculate the Annuity Reserve Fund interest by multiplying the balance in the Fund at the end of each month by .0025. Begin with the balance as of December 31st of the prior year and use the balances in the Fund at the end of each month through November 30th.
4. Determine the amount necessary to bring Expense Fund to zero.
5. Complete the Investment Schedules. Remember to include investments that are traded prior to January 1st but not settled until after December 31st.
 - a. Determine the accrued interest
 - b. Adjust equities to market value as of December 31st
 - c. Determine current year investment income
6. Determine accounts receivable and accounts payable and make the appropriate journal entries. List all receivables and payables on Schedule A of the Annual Statement.
7. Using the “before closing trial balance”, enter the appropriate figures on the Annual Statement. Complete the Investment Income Schedule on Page 6 first. Complete Pages 4 and 5 next, using the balances before closing with the following exception. The amounts for 1(e), 2(a), 4(b), 5(b), and 6(e) on the Receipts Page should reconcile to the bottom of page 6 of the Annual Statement.
8. Complete Page 3 next. Enter the ending balances from last year as the beginning fund balances. Then take the totals of the receipts and disbursements for each fund from Pages 4 and 5. List the inter-fund transfers on the bottom half of Page 3. Include the inter-fund transfers made during the year as well as those made at the end of the year. Do not treat interest not refunded as an inter-fund transfer. Enter it as a receipt on Page 4 (#6c.) Lump all items of the same nature together. For example, list all transfers from the Annuity Savings Fund to the Annuity Reserve Fund as one total. Finally, determine the balance for December 31st by adding the beginning balance to the receipts and inter-fund transfers (if negative amount, subtract) and subtracting the disbursements.
9. Next, make the closing entries as indicated on the following pages. The Fund Balances must agree with the balances on Page 3. If a Fund Balance(s) does not agree, correct the discrepancy.
10. Prior to closing, make the following journal entry to close out Interest Due and Accrued as of the previous December 31st:

Debit Investment Income (Ledger #4820)

Credit Interest Due and Accrued on Fixed Income Securities (Ledger #1550)

CLOSING ENTRIES (continued)

			Ledger Account Number
	Credit	Management Fees	5304
	Credit	Custodial Fees	5305
	Credit	Consultant Fees	5307
8	Debit	Contributions to Military Service Credit	4890
	Credit	Special Fund for Military Service Credit	3295
9	Debit	Investment Income	4820
	Credit	Realized Loss/Loss on Sale of Investments	4885
	Credit	Unrealized Loss/ Decrease in Market Value of Investments	4887
10	Debit	Investment Income Received	4821
	Debit	Realized Gain/Profit on Sale of Investments	4884
	Debit	Unrealized Gain/Increase in Market Value of Investments	4886
	Credit	Investment Income	4820

Close the Investment Income Account to the Annuity Savings, Annuity Reserve, Expense, and Military Service Funds for the amount of interest required for these funds. Credit the balance to the Pension Reserve Fund:

			Ledger Account Number
	Debit	Investment Income	4820
	Credit	Annuity Savings Fund	3293
	Credit	Annuity Reserve Fund*	3294
	Credit	Special Fund For Military Service	3295
	Credit	Expense Fund**	3298
	Credit	Pension Reserve Fund	3297

*For the calculation of interest for the Annuity Reserve Fund. Use worksheet on Page 63.

**Transfer the exact amount that will result in a zero balance in the Expense Fund.

Note:

If, after final closing entries, the Pension Fund has a debit balance, a transfer needs to be made from the Pension Reserve Account to bring the Pension Fund into either a credit or zero balance. The amount of the transfer can be determined from the projected appropriations page of the annual PERAC appropriation letter.

SAMPLE CLOSING ENTRIES (continued)

		Account Description	Ledger Account Number	Debits	Credits
7.	Debit	Expense Fund	3298	\$283,236.46	
	Credit	Board Member Stipend	5118		\$0.00
	Credit	Salaries	5119		\$102,698.14
	Credit	Legal Expenses	5308		\$8,176.71
	Credit	Medical Expenses	5309		\$0.00
	Credit	Travel	5719		\$1,517.73
	Credit	Administrative Expenses	5589		\$10,226.11
	Credit	Furniture and Equipment	5599		\$0.00
	Credit	Management Fees	5304		\$150,997.32
	Credit	Custodial Fees	5305		\$9,620.45
	Credit	Consultant Fees	5307		\$0.00
8.	Debit	Contributions to Military Service Credit	4890	\$0.00	
	Credit	Special Fund for Military Service Credit	3295		\$0.00
9.	Debit	Investment Income	4820	\$5,566,134.48	
	Credit	Realized Loss/Loss on Sale of Investments	4885		\$1,270,078.65
	Credit	Unrealized Loss/Decrease in Market Value of Equities	4887		\$4,296,055.83
10.	Debit	Investment Income Received	4821	\$1,068,555.19	
	Debit	Realized Gain/Profit on Sale of Investments	4884	\$2,479,421.60	
	Debit	Unrealized Gain/Increase in Market Value of Investments	4886	\$6,361,285.60	
	Credit	Investment Income	4820		\$9,909,262.39